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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS  
APPROPRIATIONS FOR 2004--Part 3

FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS  
APPROPRIATIONS FOR 2004

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HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED EIGHTH CONGRESS  
FIRST SESSION

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SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED  
PROGRAMS

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NOTE: Under Committee Rules, Mr. Young, as Chairman of the Full  
Committee, and Mr. Obey, as Ranking Minority Member of the Full  
Committee, are authorized to sit as Members of all Subcommittees.

Charles Flickner, Alice Grant, and Scott Gudes, Staff Assistants,  
Lori Maes, Administrative Aide

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS  
APPROPRIATIONS FOR 2004

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Thursday, March 27, 2003.

SUPPLEMENTAL REQUEST FOR IRAQ AND THE GLOBAL WAR ON TERRORISM

WITNESSES

RICHARD ARMITAGE, DEPUTY SECRETARY OF STATE  
ANDREW NATSIOS, ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL  
DEVELOPMENT

Chairman Kolbe's Opening Statement

Mr. Kolbe. The Subcommittee on Foreign Operations will come to order. We have very limited time today, therefore I want to get started. I know that Administrator Natsios is in the building, and will be coming through the door in a moment.

We welcome Deputy Secretary of State Richard Armitage and USAID Administrator Andrew Natsios. I appreciate the fact they have agreed to appear on very short notice to help the committee promptly consider the President's March 25th request for supplemental funding.

This subcommittee's part of that supplemental for Iraq and the war against terrorism amounts to no less than \$7,573,400,000, almost half of what is requested in our regular appropriation bill for 2004.

It is important to take note of the fact that only one-third of this supplemental request for foreign operations is for relief and reconstruction in Iraq. The remaining two-thirds would go to countries supporting Operation Iraqi Freedom, to Afghanistan or to the broader war against terrorism.

If the executive branch in Congress can work cooperatively as we proceed through this conflict in Iraq and the global struggle against terrorism, then all Americans, especially our men and women in uniform, will benefit. Now that the President has undertaken the campaign in Iraq with full authorization from Congress, we owe them no less than our full support.

However, in my view, it is not appropriate to use the Iraq supplemental as a cover to assert agency jurisdiction or to implement untried concepts. It should be our goal to provide the resources needed to ensure that after the conflict ends, the Iraqi people are better off than they were under Saddam Hussein.

It is appropriate to assist the countries that stood with the United States at some risk. Other matters, however, ought to be put aside until we consider the fiscal year 2004 request.

I also want to express my view that the requested general provisions would give the Executive Office of the President unprecedented authority to override current law and to allocate funds without any role for Congress.

I am confident that the committee will recommend most of the funding requested by the President and will provide flexible conditions for its use, but I am determined that Congress not abdicate its own constitutional responsibilities with regard to spending.

Some changes to the recommendation are needed, and I am confident they will be made during our consideration of the request.

I understand that both witnesses have very brief opening statements. The value of this hearing is the exchange between our members and our witnesses. We all have numerous questions for them. We all have little time to get the information we need to mark up the bill next week. I might just add that any material for the record needs to be provided by tomorrow.

Although neither of our witnesses is directly responsible for the package drafted by the Office of Management and Budget for the President, they are the officials who have to implement the bulk of the request before this subcommittee.

Without expecting them to depart from the President's policy decisions, we do expect them to do their best to explain how the funds would be used and to help us perfect the request as we proceed to mark up next week. I would recommend that questions about the details of Iraq relief and reconstruction be directed to Mr. Natsios, and that the political questions be directed at Deputy Secretary Armitage.

Before I turn to our witnesses for their opening statements, which of course will be put in the record, first let me welcome Administrator Natsios. We decided we could get started with these opening statements, as we knew you were proceeding to the room here.

And let me call on my distinguished ranking democratic member, the gentlelady from New York, for her opening statement.

#### Mrs. Lowey's Opening Statement

Mrs. Lowey. Thank you, Mr. Chairman. I want to begin by expressing once again my support and gratitude to the brave men and women in our Armed Forces whose dedication and valor make us all proud, and I also express my sincere condolences to those families whose loved ones have been lost or captured. And I am very pleased to welcome Deputy Secretary Armitage today, and I know that you be as forthcoming and frank with us about this request as you have been in the past. Frankness is especially important in this instance because of the expansive nature of this request and the extremely broad flexibility that has been requested to implement not only Iraqi relief and construction, but a broad range of ongoing foreign assistance programs.

I am also pleased to welcome USAID Administrator Natsios who has been intimately involved in crafting plans for post-war relief and reconstruction.

At this critical moment, I feel we must be united in support of our troops and give the President the resources he needs to finish this campaign. In that regard, I will support any expenditure that is necessary to end this conflict and to rebuild Iraq. I will not, however, support providing large sums

to new accounts with broad authority and no Congressional oversight. This request continues an unfortunate pattern for this administration of requesting large sums of money and notwithstanding authorities for evolving conflicts with the explicit intention of making Congressional oversight more difficult.

A careful examination of this subcommittee's record when it comes to providing necessary flexibility for evolving crises with the appropriate degree of oversight will show that we have been 100 percent responsive when the need has clearly been demonstrated.

At this moment when unity in our government is so crucial and when there is broad consensus to give you what you need, it hurts our cause when the administration insists on attempting to rewrite the constitution. I intend to address a number of specific concerns in my statement and in my questions, but initially I hope you will be able to give us some context for this \$7.5 billion request. What portion of the reconstruction needs does this address? This package clearly does not provide enough to fund the President's vision for post-war Iraq where there is universal health care and education, electricity and water have been restored and ports and highways have been rebuilt.

While I appreciate these intentions, we are creating the expectation that this will be accomplished with no clue of how much it will cost and no allies willing to help with the cost. Clearly, it will take more than the \$2.5 billion requested in this package.

With respect to other elements of the package, it appears that being a member of the coalition entitles you to some form of assistance, whether you have any direct involvement in the conflict or not. I would cite Colombia and the Philippines as examples. And with respect to Turkey, it is my hope that we will get the degree of military cooperation that we desire and the assurances that have apparently been made by their military to cooperate with the United States forces in northern Iraq are real. I think at this point in the conflict, it is too early to tell.

I am pleased that you have finally requested funds for Afghanistan, but I have to say that the problems and shortfalls in funding we are now experiencing are not due to lack of Congressional support for this priority, as you well know. Instead, they stem primarily from the fact that until now, the administration has refused to request funds for Afghan reconstruction for 2003. It is no wonder to me that you are strapped for cash.

Finally, I do intend to address the issue of governance of post-war Iraq. While I have mixed opinions about the role the U.N. might play in that task, I have great doubts about empowering the Iraqi opposition groups that have been operating in exile for far too long. This will be a complicated and long-term effort. We all know that. It serves no one to present the vision that this will be easy or that the Iraqi people will all applaud our occupation. We have a difficult road ahead, and we will work with you, but we have to do it as partners and be frank with one another and the American people. I look forward to your testimony.

Mr. Kolbe. Thank you, Mrs. Lowey.

Chairman Young, do you have a statement?

Mr. Young. Mr. Chairman, thank you very much, and I would resist an opening statement, other than to welcome Secretary Armitage, who has always been very open and frank and tough and very effective, and we appreciate the work that you do for our country. And to welcome also Mr. Natsios. I have not had the privilege of meeting before. But we welcome you here and look forward to your testimony. Mr. Chairman, thank you.

Mr. Kolbe. Mr. Obey.

Mr. Obey. Mr. Chairman, I know you have a plane to catch, so I will forego an opening statement and just confine to questions.

Mr. Kolbe. Thank you. We will begin our questions. I don't see my timer here. I am going to try to stick to our 5-minute rule here.

Let me begin with a question that is a broad question. I think this really--this definitely goes to Secretary Armitage.

I would like you to talk for just a little bit about the decision to make two-thirds of this request that is in this foreign assistance a supplemental for countries, other than Iraq and one-third--about \$2.4, a little less than \$2.5 billion is for relief and reconstruction, and of that, I might add, \$500 million is to replenish accounts that have already been drawn on in USAID is not relief and reconstruction in Iraq the main challenge, especially with few signs that the United Nations is not going to allow us to use Iraqi oil for reconstruction any time soon, or at least it looks like we have a serious debate and challenge in getting that kind of resolution through the United Nations.

And would our relief and reconstruction likely require more than the \$2.4 billion over the coming year? So I guess my question is, could we expect an additional supplemental or an amendment to the 2004 budget for this, especially, again, if the U.N. Security Council continues to balk at making the food and money paid for by the Oil for Food program immediately available?

I know \$2.4 billion is certainly, in the context of our budget of this subcommittee, is not a small amount of money, but it is less than what we--half of what we provided the Camp David countries during each of the past 2 years, and I would like you to talk about it in terms of the needs, whether the needs are going to be met in this supplemental and what you foresee the United Nations doing and how that is going to play out the U.S.-U.N. role.

Mr. Armitage. Thank you, Mr. Chairman, Mrs. Lowey. I will be as direct as possible.

Mr. Kolbe. Excuse me. I am sorry. I forgot to call on you for your opening statements.

Mr. Armitage. I am smart enough to know when you are not making opening statements, I shouldn't make one.

Mr. Kolbe. But we did make brief ones. I----

Mr. Armitage. No, but one thing, if I may. You had my boss up here, and you were very kind to him. I want to reciprocate, but I want to do it a different way by just saying one other thing. We have enjoyed, for the last 2 years, a pretty good relationship with this subcommittee, and I am very often dealing with different members. But I have never taken the

public time to say anything about your staff, and I want to say you have got a tough bunch. Whether it is Charlie or Alice Grant or Sean, Lori Maes, who I see every morning, Mr. Chairman, Mark Murray, Beth, or the recently departed John Shank. They are tough, but from this citizen's point of view, awfully fair. So that is----

Mr. Young. You clear up that recently departed----

Mr. Kolbe. I just moved over to the----

Mr. Armitage. I apologize to John--my apology to you and John.

Mr. Kolbe. Let me just ask. Obviously the whole statement will be put in the record.

[The statement of Mr. Armitage follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Kolbe. Mr. Natsios, did you have a statement that you would like to make, or would you just like to put it in the record?

Mr. Natsios. I will put my statement in the record.

[The statement of Mr. Natsios follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Kolbe. We will go directly to questions. Thank you very much. That helps all of us.

Assume the question is repeated there about the United Nations and about the sufficiency of this request. Thank you.

#### IRAQI PIPELINE

Mr. Armitage. This is not Afghanistan, and that is the basic thought that went into our mind. When we approached the question of Iraq, we realized here is a country that has a resource, and it is, of course, oil, and it does bring in a certain amount of revenue each year--\$10, \$15, even \$18 billion. It has a pipeline which is almost \$15 billion in the OFF account, of which \$2.5 billion in contracts which are coming in for food, humanitarian food and about \$500 million is for medicine. And the other \$7 million are contracts that have been let for pipeline repair, spare parts, things of that nature that are allowed under the existing UN resolution. This is not a poor country, first of all.

Second of all, we don't know what it is going to cost. I have read the Brookings estimates and other estimates that talk \$20, \$40, \$60 billion. Nobody knows. But here is what we do know: that your U.S. military is conducting a campaign of enormous skill and precision, precisely, among other things, so we won't take out infrastructure. The infrastructure that has been damaged, by and large, has been the infrastructure that Saddam Hussein has damaged deliberately as he tries to disenfranchise particularly the Shiha' in the south. That is part of the thinking that goes into that.

#### UNITED NATIONS

Now, on the United Nations, there are two separate elements

that are going on. First of all, is the Oil-for-Food program. We want to work a U.N. Security Council resolution and are making, I am informed, great progress in New York in doing so, which would allow the Secretary General to take over the administration of the Oil-for-Food program. This would be great. This would allow him to use the 55,000 distribution points throughout Iraq to distribute food, et cetera, which would take a big load off the British and the United States and the coalition partners.

The second resolution is the one that Mr. Blair and Mr. Bush were talking about today at Camp David, and that, for lack of a better term, is probably a more omnibus resolution which will define the role of the U.N. as we go forward.

Now, why is the U.N. important? Are we going to, after having completed the military mission, walk away? No. We are not going to do that. We are going to make sure that we accomplish the elimination of WMD, that we bring about a modicum of stability to that country and get things stabilized.

However, we--and you know better than anyone--don't have the deepest pockets in the world. We may have pockets, but they are not unlimited. And in order to get full use and access to the IFIs, the International Financial Institutions, it will be very beneficial to have an appropriate role cut out for the U.N. as we move forward. That is part of the discussion that the President and the Prime Minister are having today.

Finally, the rationale for the countries who are supporting us is quite obvious. I want to take one head on in particular, because I know it is a neuralgic point with many members, and that is the question of Turkey.

We have asked for a billion dollars in ESF for Turkey that we would--when we have had discussions with the Turks about their ability to leverage that into about \$8 or \$8.5 billion worth of loan guarantees. If we respect democracy, then we have to respect the outcome of a democratic process. A brand new government in Turkey tried to get something through their parliament and didn't make it. It is not to say that we haven't had a lot of cooperation with Turkey. It is not a state secret any longer that there are certain U.S. military units and other government employees that have been in northern Iraq for some time. That was done with the assistance of Turkey. We have had meetings with the opposition where we, my colleagues and others, have participated in northern Iraq in Salahadeen because Turkey has helped.

It would be the greatest of ironies if we spend all this time and energy, blood and treasure, and we are successful in Iraq, only to turn around and see a longtime ally, Turkey, go bottoms up because of economic weakness. I will stop there, sir.

Mr. Kolbe. Thank you. It is only fair that since I made the mistake of not calling you for your opening statements, that some of it got taken up by your brief comments, and we will go to Mrs. Lowey.

#### FUNDING

Mrs. Lowey. Thank you Mr. Chairman. I did want to pursue the issue of the funding, but I think my chairman covered it.



I just wanted to add, the President recently announced the seizure of over a billion dollars in nondiplomatic Iraqi assets. These funds, I understand, are sitting at the Treasury waiting for use in post-war Iraq. Why are they not available now?

Mr. Armitage. Mrs. Lowey, there are approximately \$1.74 billion which was vested.

Mrs. Lowey. I am glad that there is more than a billion.

Mr. Armitage. There is, but a portion of that has not been totally taken by the President, because there are victims of terrorism, of claims against a certain amount of it, and we are setting that aside for them. They deserve to have access to it. The remaining money--the remainder of the money is ours. Our thinking is that--and we don't know the answer to how much--but a certain amount of that is going to have to be available for the government of Turkey right off the bat, whether it is---

Mr. Kolbe. Did you say Turkey?

Mr. Armitage. I meant Iraq. I am sorry. I am a little tired. I apologize. For the government of Iraq, they are going to need money right away, and that would be a good source of it. It was seized from the illegal empire of Saddam Hussein, and we believe if it went towards the legitimate government of Iraq in the future, that would be not only a great irony, but also the right thing to do. That is not to say that certain projects could not be funded out of it. They could, but we have not made the decision and determination of how much.

Mrs. Lowey. And just for clarification, the President is talking about rebuilding 6,000 schools within 1 year, providing student kits to 4.2 million children in 12,500 newly-opened schools, rebuilding up to 100 hospitals, providing 12 new berths at the port of Umm Qasr. Does the \$2.4 billion pay for all of these items?

Now, I know you were talking about the oil and the chairman mentioned the difficulty with that. Where is this money going to come from?

Mr. Armitage. No. It would not pay for all of that, Mrs. Lowey. There are unaccounted for yet--or yet unobligated, \$5 billion left in the OFF, Oil-for-Food program, which contracts haven't been let against. That is a potential source of some money. There are the international financial institutions, and we have had a number of countries already step up and publicly say they want to participate with money, not just to participate in terms of getting contracts, in the post-Saddam Iraq. Taiwan, Japan and others. The EU just indicated a certain amount of money to go forward in humanitarian affairs right away. And that could be hospitals.

It is not possible to pay for all of that out of \$2.4 billion.

Mr. Natsios. Could I just add something to that? It does not cost a lot of money to rehabilitate an existing hospital or school. It costs a lot to build a new school. This is not an underdeveloped country. It is a country that has had a predatory and tyrannical regime in charge for several decades. But there is infrastructure. It is a very developed country in terms of the infrastructure. There are 250 water filtration plants. We don't need to build water purification plants, but the equipment in the plants has not been maintained in many

cases at all. Half of Basra, for example, the city where there is a lot of public attention right now because of the water situation, has potable water. The ICRC turned it back on by repairing some of the systems.

But what the media has not mentioned is the other half of the city is drinking sewer water, because open sewage goes into the Tigris and Euphrates River, and it is untreated when it gets pumped out for half the city. It is brackish water. It is sewage there. And that is why the child mortality rate is 131 per thousand. It is an extraordinarily high rate for a country of that wealth.

That was the case, however, before the war. It has been the case for 12 years. It has nothing to do with the war. The fact is that Saddam has not repaired the infrastructure or maintained it in the Shia areas of the country, because he has not wanted to lower those child mortality rates. In fact, there has been a deliberate discrimination against certain populations within the country. This money will go a long way towards rehabilitation as opposed to constructing whole new structures. We don't need to do that.

Mrs. Lowey. I just think it is very important that we be straight, that the American people understand what we are getting into and that we understand where this money is coming from. And to continue that line of questioning, I remember our discussion that all the borrowings from the 2003 bill for Iraq would be restored in the supplemental. The administration restores, as far as I know, only \$420 million of the \$506 million borrowed so far. Could you explain that? That would be for Mr. Natsios.

Mr. Natsios. The account is written for the \$2.4 billion, which is the State and USAID part of the budget. It is written in such a way that allows OMB to reimburse us for the expenditure money. You actually precisely gave us the amount that we will have spent by the latter part of April, just over \$500 million from the existing 2003 appropriation. So we can get it back. It allows OMB to do that. The budget is written in such a way in terms of the \$2.4 billion so that the accounts are fungible. You can move the money around. It is not allocated in precise small amounts by one subsector versus another. So there is language that allows us to be reimbursed.

Mrs. Lowey. I know that--oh, my time is up, but I would think you would be upset that the committee is adjusting your budget, reflecting those changes. I guess we don't have time to respond further, but I think I would be upset if I were you if I lost that much money in my current program. But I will turn it over to the next person. We will come back to that one.

Mr. Kolbe. Mr. Young.

#### TURKEY

Mr. Young. Mr. Chairman, just briefly, I want to thank the Secretary for bringing up the subject of Turkey. Since I have been in the Congress a lot of years, I have been involved in national defense issues, and I know that as we closed out the Vietnam War as we went through the Cold War, that Turkey was always there in support of the United States. And when difficulties came up in NATO on occasion, Turkey was always

there on the side of the United States.

And I do know--I have been a little disappointed by the fact that we were not able to bring our fourth division in through Turkey, and it has created difficulties for us in this war effort, but I have talked with some very high-ranking military, U.S. military officers who are dealing every day with Turkey and the Turkish military, and they tell me that that cooperation is back full up, that there is no question, there is no hesitation that everything is there that we need, even if we haven't asked for it yet, it will be if we do ask for it.

So I am glad you brought that up. And I don't have a lot of questions about how you would--are you planning to use the money? You all know a lot better about that than I do, but I do know that we are recognizing some of the countries that are being very, very helpful to us right now, and I think that is very appropriate that we do show our appreciation. So I am prepared to support your request. I am prepared to try to keep this bill as close to the President's request as possible.

As I announced at several other hearings today, today is the last day of hearings. We have had 5 hearings today. Now you are the fifth hearing. We are planning to--the plan is to mark up this bill on Tuesday morning and have it on the floor next week sometime. And Senator Stevens and I have discussed how closely we can keep our bills together so that we can conference them quickly, because I know that some of these funds in all of the accounts, the war account, your account, really are very timely. So I give you my commitment to try to make that happen.

Mr. Young. I appreciate both of you and the work that you are doing here.

Mr. Armitage. Thank you, Mr. Chairman.

Mr. Kolbe. Thank you very much, Chairman Young. You are so diligent with your time here.

Mr. Obey.

Mr. Obey. Thank you, Mr. Chairman. No questions, just four points. First of all, I think for the reason cited by the chairman, I think it is obvious that this request is just the beginning. We are going to see undoubtedly more money requested to help finance these operations. Secondly, I want to congratulate AID. It has already been noted that the administration's plan is to provide some basic health care assistance to some 25 million Iraqis, refurbish 100 hospitals and refurbish 6,000 schools. I am delighted to hear that. I just wish that we could use a good portion of the projected tax cuts in this country to provide the health care for 25 million Americans here as well. I think it would be highly appreciated.

Thirdly, I want to get to what I consider to be a serious long-term problem and that is these loan guarantees. This is the second time that we have had roughly \$9 billion in loan guarantees considered for Israel, as you know, Mr. Secretary. Last time it happened was in 1991, I believe, under the prior President Bush, and at that time there were three facts associated with those loan guarantees. First of all, there was an understanding that the money would not be used beyond the Green Line. Secondly, there was an understanding that there was dollar for dollar deduction for any money that was spent in the territories. And, thirdly, and most importantly, there was a

determination on the part of the Rabin government that there would be no new settlements undertaken in the West Bank. As I recall, that wasn't necessarily true in the Golan, but it was in the West Bank. This time around, as I understand it, we have the first two conditions applying in the language that you sent down but we don't have the third understanding on the part of the Sharon government. I think that creates a long-term problem for us because it seems to me that our enemies in the Arab world can try to use the war against Iraq in combination with the loan guarantees to Israel and therefore allege that we are, quote, anti-Arab.

Obviously it is Mr. Arafat's fault that we don't have an opportunity to try to get that kind of agreement out of Mr. Sharon because Arafat blew it. I understand that. But it seems to me that it makes all the more urgent and imperative that we move rapidly to try to restart a genuine peace process between the Palestinians and Israel because otherwise I think we will unnecessarily build enemies in that region. And I would hope that the administration would move rapidly with real commitment into that area.

Lastly, with respect to the various authorities that you are asking, I would simply say that when I look--and I raised this with Secretary Rumsfeld--when I look at all of the various authorities that are being asked for by the administration, it really winds up pretty much meaning that if Congress were to provide all of them, you would have the authority and resources to put U.S. resources and U.S. troops into almost any country in the world at any time and in any capacity without the participation of the U.S. Congress.

That is probably not what you intend to do, but nonetheless, having seen past administrations abuse even narrow authority, I think you can understand why we believe that in deference to Article I of the Constitution we should not go nearly as far as the administration is asking. And I would say I think that that is going to be one of the key areas in determining whether we are going to have bipartisan support for this bill, because I am certainly willing to provide every dime you need to fight the war but I am not willing to abrogate Article I of the Constitution.

Thank you, Mr. Chairman.

Mr. Kolbe. Would you like to respond, Mr. Armitage?

Mr. Armitage. With Mr. Obey's permission. It was a statement, and I understand that, and just on the last two points. We are in the process of working out, in meetings held at the White House, the economic and the political requirements for those loan guarantees. There was a 1991 agreement, just as you spelled out. There was also a 1994 agreement, which loosened those restrictions. But we need both economic and political requirements to be met by Israel. We haven't totally settled on those ourselves, but I take your words very seriously.

I do want to say the comment about getting something started and really working hard, and rigorously and robustly on the question of a peace process is one we do take seriously. The President spoke about it, Mr. Blair today in the joint press conference spoke about it. He had a good chat with the President about the road map. It is our intention, as Secretary

Powell indicated in recent interviews, that as soon as the Prime Minister Abu Mazen has a government which is confirmed, to go ahead and present the road map and work rigorously with the Quartet to lower the terror so Israel can live in peace and security, and then the Palestinians will be able to realize a state, an independent state, living side by side.

Finally, the question of Article I of the Constitution. We understand very well both Article I and who does what. We were trying in some of the authorities to show that we wanted to limit--I will give you an example, for instance, what I call the DEF, the Defense Emergency Fund, \$50 million. We tried to make it very clear that the authorities went away at the end of September of this year, that we weren't trying to have something open ended. We are just in sort of a terra incognita situation in this war on terror and in the war on Iraq. We wanted to be able to handle all contingencies. But your comments about the Constitution are understood, sir.

Mr. Kolbe. Thank you. Mr. Knollenberg.

Mr. Knollenberg. Thank you, Mr. Chairman. Mr. Secretary, welcome. And Mr. Natsios, glad to have you here. I wanted to very briefly thank you and the administration for including the \$10 billion in loan guarantees. And also the \$1 billion in emergency assistance to Israel. They have had some economic challenges, they have had some security challenges. And I think that is a step in the right direction. So I applaud your work on that.

The other thing I would say to you is that you and I had a conversation last year regarding some money that was ultimately appropriated but was never actually provided. That happens in this business because the President had to sign off that it was an emergency situation and ultimately when that time came he chose not to. And so that is his prerogative.

I want to raise an issue with you. In no way do I have any reason to challenge what the administration is doing with respect to Turkey because I know the history, the long time that they have been an ally and they have been a friend. What I am wondering about, though, we might put something, insert some language in the supplemental requiring the President to confirm that Turkey is cooperating with us before we make any money available.

Would you comment on that approach and what perhaps would be in order; what would be in line regarding any funds? And I recognize all the subtleties and the sensitivities of the situation.

Mr. Armitage. Mr. Knollenberg, you really make it tough for an administration witness who spends most of his time trying to make sure there are no, in my words, shackles on the executive branch's hands.

I think it is perfectly appropriate for Congress to write legislation any way you deem fit. I would hope that if there are these kind of criteria you could make it a matter of report language. This would be my personal view, and let us know very clearly the will of the Congress rather than add more requirements on the President. But, as I say, I am generally in the business of trying to fight off any sort of thing that inhibits the power of the executive branch, notwithstanding my full understanding of Mr. Obey's comments about Article I of

the Constitution.

On the question of Turkey, I think the answer is we saw in our televisions yesterday whether or not they are cooperating. The 173rd jumped in valiantly and well last night and more today. It is over Turkey. Missiles are flying into Iraq and airplanes over Turkey. And, as I have already mentioned, special forces and other activities which have been ongoing. And, I think, this is not in any way to be confused with the \$1 billion request of the administration, but we all understand very well the history of the Kurds in northern Iraq and the Turks, the Turkish fear of refugees, the desire of the Turks to go in and have a cordon sanitaire, if you will, to make sure they don't have refugees bumping up against their territory. As yet they have restrained themselves for, I believe, two reasons: One, there are not refugees in large numbers, and two, I believe we have engaged them very well, and we are trying to engage them with the Kurds to make sure that the temperature stays very low. It is a complicated equation but at least thus far I think it has been relatively successful. Chairman Young's comments, and I wrote them down, express disappointment with Turkey, particularly with the 4th ID, are also exactly what anyone in the administration would say.

#### MULTILATERAL ASSISTANCE

Mr. Knollenberg. What about multilateral assistance? And I don't know how much of that there is, you could comment on that if you like, but would that in any way be a challenge or thwarted by virtue of our decision?

Mr. Armitage. If you are talking about World Bank and IMF, yes. I think even the administration's announcement that we were going to request of the Congress a billion for Turkey had a positive effect on the markets. That gives you an idea that just the suggestion stabilizes their markets. This doesn't in large measure affect our approach to the IMF and World Bank and our need to work with both of those organizations to make sure that Turkey does what they need to do in terms of structural reforms so their economy can be worthy of IFI support.

#### IRAQI WATER PLANTS

Mr. Knollenberg. Just a final question for Mr. Natsios. Thank you very much, Mr. Secretary. You mentioned what Iraq does not need is water filtration plants. They have got plenty of those. Is there anything else in the way of assets that Iraq has in your judgment that perhaps we don't have to worry about or rebuild? They have 250 water filtration plants. Is that even enough? Apparently it is not.

Mr. Natsios. They have them but they don't work. That is the point. They don't need to be constructed from scratch. They need to be rehabilitated very badly. That is not the reason the child mortality rates are higher in Iraq than they are in India, which has more poor people in it than Africa does. The reason is because they have had a deliberate policy of not investing in replacing equipment on those existing plants. Those plants go back 20 years. The equipment in some plants does not work at all. Half of Basra has been drinking sewer water for 12 years. That is why kids are dying. UNICEF estimates 70

percent of the kids who die are dying from communicable disease or from dysentery from bad water. 70 percent. More than a 100,000 kids in Iraq died needlessly last year from these causes. These are kids who die before they are 5. We have 10 per thousand die in the United States. In Jordan it is 34. In India it is just over a hundred. In Iraq it is 131. It is an extremely high rate.

Mr. Knollenberg. Who is the highest?

Mr. Natsios. Afghanistan, at 25. 25 percent of the kids die before they are 5 in Afghanistan. Angola, Sierra Leone, those countries.

Mr. Knollenberg. Thank you very much.

Mr. Kolbe. Mr. Rothman.

Mr. Rothman. Thank you, Mr. Chairman. Mr. Secretary, it is always a pleasure to see you, Ambassador Natsios. Thank you for being here. First I want to say that I did support the resolution in the Congress to authorize the President to disarm Saddam Hussein of his weapons of mass destruction and to see about regime change in Iraq to liberate the people of Iraq. I believe, though, there may be in the future plenty of time for Monday morning quarterbacking with regards to strategy and sufficiency of troop strength and the like. But for the moment I believe everyone in Congress, whether they voted for the war resolution or not, is 100 percent behind the President, 100 percent behind this administration, 100 percent behind our brave troops for what they are trying to accomplish and what they will accomplish.

I did want to say that I generally support the requests set forth before us, although I do have the same concerns about Article I of the Constitution whereby we don't want Congress to give up any of its authority of oversight and as a check and balance to the executive branch, but we do want to provide the money needed and I am sure we will be able to work those things out.

A comment has been made about Israel--and it is odd that Israel and the Palestinians come up when we are talking about the Iraq supplemental and lack of democracy in the Arab world. But nonetheless, I understand why it has come up and I think that there should be continued administration attention on bringing a just and lasting peace to the Israel-Palestinian situation. However, as we know, the Palestinians were offered their own state on 97 percent of the land they asked for by Clinton and Barak, and the Palestinians rejected their own state, the implication being they wanted Israel's land too. The Palestinians walked off and did not even provide a counteroffer and restarted the Intifada. Nonetheless, we have to continue the process, but I don't think we can take our eye off the ball.

Israel has been our friend for 50 years, our strategic military partner. They are the ones, Israel, who took out in the Iraqi nuclear reactor in 1981. God forbid, if the Israelis hadn't have done that, we would be in one heck of a situation today facing a nuclear armed Saddam Hussein. Plus, I think Israel has exhibited extraordinary restraint with citizens walking around with gas masks, for God's sake, in not getting involved at the request of our government in this war against Iraq. They would love to participate in the war, as you well know, with of course many in the Palestinian Authority

literally cheering the deaths of American soldiers, today, literally displaying Saddam Hussein's picture prominently even above Arafat's. So there should be no doubt who our friends are in the Israeli-Palestinian situation.

However, as a human being, I want for the Palestinians what I want for everyone: Prosperity, peace and security. But they first have to be willing to live in peace with Israel, their neighbor and our dearest and most important strategic ally in the region. The burden is upon the Palestinians to have a leadership that will stop the terror, and there is only one constituency for the Palestinians to persuade. The Palestinians must persuade the Israeli people that they don't want to kill them, and then Israel will make peace with them as they did with Jordan and Egypt and a cold peace with Syria and Lebanon.

I am looking for the Palestinian leadership to do what it needs to do. In that regard, I wanted to add my voice to the debate. I would like to ask you about the \$200 million in the supplemental request for the Middle East Partnership Initiative to bring about greater democratic reforms in the various regimes in the Middle East who are not democracies like Israel. What countries are you talking about spending that \$200 million on and give me an idea of some the projects, specifically will they include the education of the girls and the women in these countries? Fifty percent of the populations in these Arab lands have been kept out of education.

Mr. Armitage. Thank you, Mr. Rothman. I am pleased, and, I am sure, Andrew is pleased to be part of an administration which our Israeli friends have said developed the finest relationship with Israel since President Truman had the courage of his convictions.

Second of all, we see the problem as you do. That is why the President made the comments he made about the need to stop terror so Israel can live safely and securely, and then we will move forward.

#### MEPI

On the question of the \$200 million, we call it the MEPI, Middle East Partnership Initiative. The \$200 million request is actually in two tranches, or two different segments, \$175 million for the Middle East, which includes the Magreb, it includes Egypt. And for women's issues particularly, it includes areas that are not normally eligible for U.S. assistance, some of the Gulf states, to try to get more access to women to education and things of that nature. \$25 million, in our hope, in our desire, is for something we call Muslim Outreach, because I have to tell you we always have said that we realize that Indonesia is the largest Muslim nation in the world, and we said it and we said it and we never realized what was going on. We didn't pay any attention to what was going on there, and we have since had the Bali bombing. We have learned; having been burnt once. I think we are a lot smarter. The other \$25 million is primarily for outreach in Malaysia and Indonesia and somewhat in Bangladesh and places like that.

It is divided--clearly we have done a lot in the Middle East, but what we have done historically hasn't always worked the way we want it to. We found that out in 9/11, I think, and



through no fault of our own. But we needed, we felt, to be more innovative. This in no way, in our view, eliminates or has any hint of criticism for the unbelievable efforts of USAID. We think their efforts are absolutely needed. In fact, as we move forward, hopefully, with the Congress's blessing on MEPI, AID will be a big part of that. We think there is a lot of need and a lot of ways to go about this business to try to empower women, to try to make sure that education reaches to all segments of society, to try to get structural reform in the economic areas so that people can be engaged in micro lending, sort of borrowing from the ideas and the writings of Hernando DeSoto, and he taught us a lesson in the mid-1980s with his work *The Other Path*.

Mr. Rothman. Thank you. I look forward to working with you.

Mr. Kolbe. Mr. Lewis.

Mr. Lewis. Thank you, Mr. Chairman. Mr. Natsios, we are going to have an opportunity to spend some time together as we go forward with the 2004 process. I will be dwelling a lot on your testimony as well as some of the comments you made relative to the conditions of the water that are affecting children, et cetera, in this country. It is another reflection of the kind of monstrous regime that we are attempting to change in that country, and there are ways USAID can be of great assistance in creating a new life of hope as well as freedom for the people of Iraq. Your comments caused me to go back and read your testimony which I hadn't had a chance to before I got here, so I am very anxious for to us spend that time together.

In the meantime, Mr. Secretary, there is any number of items that you and I could talk about but one specific question involves the roughly \$150 million that is available to support indigenous forces in the defense part of this supplemental. Could you share with us what we are talking about in terms of indigenous sources? I note the length of time, the moneys available, et cetera.

Mr. Armitage. That is an important part of it. The other part is that a new appropriation is not needed. The idea would be that the Department of Defense, with the concurrence of the Secretary of State, could make those monies available. The idea--we don't--as I said, we don't know what we are getting into fully in Iraq. We think this is going to be a matter of weeks and not months, and that is our hope. That is what our valiant coalition is trying to do. But as a hedge, we don't know what we will be doing with the Kurdish forces and others. And this gives us the ability, should it be necessary, to arm, equip, outfit train to a higher degree the Kurds or the Peshmerga if that were necessary.

Again, as I tried to respond to Mr. Obey, the distinct limitation on the money through September was our attempt, perhaps feeble, to indicate that we are not trying to trample on the prerogatives of the Congress. We have a situation in this war, and we want to make sure we are covered on all sides as we move forward.

Mr. Lewis. I will repeat some of Mr. Obey's concerns as well as the chairman's concern for--in doing so, I would mention for the record on my part that this is a 2003 supplemental, and because of that there are certain limitations on the money. But most importantly, I find in emergency circumstances often administrations, without label on

administrations, do reach for transfer of authority as well as serious responsibility. We are concerned that we maintain the balance that is pretty obvious to people who are students of our government, but in the meantime there are shifts to and fro. And this committee is responsible for initiating appropriations, and I can tell you that Mr. Obey is going to see to it that his voice is heard in connection with that. So is my chairman in this subcommittee as well as the full committee chairman. We don't take these things lightly. And while we do feel strongly about the need for flexibility, we intend to develop guidelines that are not dissimilar from guidelines developed during the Desert Storm process. We will be talking with each other in a very short time frame, for this bill is going to be moving very quickly.

Mr. Chairman, I was planning to talk with you a bit about the Turkey question, however that exchange has taken place. So let me say this, it seems to me in the purview of this subcommittee that as we get beyond these days and perhaps weeks and hopefully not months ahead, as we go about changing the regime that is in Iraq, we need to have some open door discussions, some closed door discussions between friends of this changing world who are involved in defense, who are involved in foreign affairs matters and AID matters, et cetera. We need to talk through what this last year has done to that scene, what some of our friends have done to NATO, and what they may very well have done to the U.N. America must exercise itself by way of reflection upon America's interests first and then go about playing the role and responsibility we have in the world.

Mr. Armitage. Mr. Lewis, thank you very much. I don't think that there are very many, if any, people in this administration who don't have a full understanding of the absolute need for checks and balances. It is what has kept our system vibrant. And unlike every great power that ever went before us, that is the very system that keeps power from being consolidated in the hands of any one person, or any one branch. We will obviously discuss this in any manner you want, but you will find us open to better suggestions but fully cognizant of Article I and the absolute need for checks and balances.

Mr. Lewis. Mr. Chairman, thank you for the time.

Mr. Kolbe. Thank you. Ms. Kilpatrick.

#### U.S. EMERGENCY FUND FOR COMPLEX FOREIGN CRISIS

Ms. Kilpatrick. Thank you, Mr. Chairman. Mr. Secretary, Mr. Natsios, good to see you again under these difficult circumstances for the world. But thank you for the work and service you provide. I know in the 2004 budget that was presented there is a new account, the U.S. Emergency Fund for Complex Foreign Crisis. I see it has also arisen in the supplemental at \$150 million, which is an account that has very little Congressional oversight but will allow the President to give money when he sees fit, how much, and to whom without oversight from the Congress. The fund now used for that is an international disaster assistance account, and to my knowledge the Congress may always be a little slow but we always give the President what he wants when it comes to this committee. So I

was surprised to see the new fund set up with \$150 million in it. What is the need for it, one, and what is a complex foreign crisis? Has that been defined? Why is the Congress taken out of the loop other than appropriating the money?

Mr. Armitage. Thank you, ma'am. The complex foreign crisis at \$150 million is something, first of all, that is not for natural disasters. It could be, but it is generally not. Manmade famine; that is, one inflicted upon a society by deliberate governance, that could be. But it wouldn't be a famine, normal famine or a flood. There are, as you suggest, other accounts for that.

We are looking at crises that come upon us because of perhaps terrorist events, terrorist attacks, things of that nature. You are quite correct. Our hope would be that the President would have this money that any branch of government, whether it was Commerce or Treasury or AID or State Department, could come to and apply and hopefully have it dispersed. But that is as I understand it.

Ms. Kilpatrick. Well, is there a problem with the international disaster assistance account we have been using? Is there a reason why we need to implement a new initiative?

Mr. Natsios. The concept behind this was based on the refugee count that the President, any President has control over in the White House. And when there is a major emergency-- it is like a savings account. You, the Congress, put the money in the account. And when the President needs it for a refugee emergency, the PRM office in the State Department asks for presidential determination that this is beyond the normal appropriation and the amount of money is drawn down. We actually put something like this in our budget, and it wasn't approved. And I was very pleased the President announced it one Saturday in his radio address. This is actually more money than he announced, so we are very pleased. There are certain emergencies, when they are stacked on top of each other, we don't have enough money in the account.

Ms. Kilpatrick. You know, Secretary, and Mr. Natsios, I think this Congress would agree that those would occur, certainly in the climate that we live in today. I think the problem this Member has is that the Congress has no monitoring and oversight, no knowledge, no notification. It is really just something given to the executive office. It has always worked better when we work together. I too agree it may be necessary but I am very opposed to the Congress not having some notification in that. I hope we can work that.

#### CONTRACTS

My other question, Mr. Natsios, is to you. As we begin contracting and rebuilding Iraq I am really concerned about the contracts we will award, the grants and the like. I want to make sure that small, disadvantaged as well as minority businesses are able to participate in that grant process and the bidding process. I have heard a lot of the money has already been allotted through a no bidding process. Is that true? So that is two parts in that. Is that true? Can we get more minority and disadvantaged business into that?

Mr. Natsios. We have not issued any no-bid contracts. There

will be grants made to some NGOs and some U.N. Agencies. We don't normally have U.N. Agencies bid on contracts. We give them grants for appeals that they make.

Ms. Kilpatrick. I was more speaking of U.S. companies, large grants.

Mr. Natsios. Right. So I just want to make a distinction, because some of the other part of the humanitarian work [stuff] is done without a bidding process, [but] that is the case for all emergency grants that we give to NGOs and U.N. Agencies. I want to make a distinction. In terms of the contracts none of them are no-bid. The normal bidding process takes from the time you advertise to the time you award about 6 months under Federal procurement law. This is not just for USAID, this is for any Federal agency. Some people think it takes too long. I get impatient myself because I want to get stuff done. There is a provision in the law when there is the impairment of foreign aid in a national emergency, like this, where I can waive the procurement law. We have done it three times. Brian Atwood did it in Bosnia for the reconstruction of Bosnia because it was important to rebuild, we did it in Afghanistan so we could move quickly, and we have done it in Iraq. That was signed in mid-January. That allows for a 2-month process. It still has to be competitively bid but it is to a smaller group of companies that have done work before with USAID, has no legal or IG rulings against it, no evidence of previous abuse or problems, knows the Federal accounting system and the Federal procurement law.

Ms. Kilpatrick. So there have been no large grants or contracts given?

Mr. Natsios. Contracts. Grants are different. I was trying to draw the distinction.

Ms. Kilpatrick. Are grants at a certain level? When you identify grant as---

Mr. Natsios. We gave a grant to CARE yesterday for several million dollars. We did not competitively bid that.

Ms. Kilpatrick. Do you give any grants that are in the \$100 million range and over?

Mr. Natsios. Oh, absolutely not.

Ms. Kilpatrick. Okay. So there is a ceiling on what grants there are, that are given---

Mr. Natsios. We don't give grants of \$100 million. I mean, they are smaller.

Ms. Kilpatrick. Do you have any idea what the highest might be?

Mr. Natsios. You mean humanitarian organizations?

Ms. Kilpatrick. Yes, uh-huh.

Mr. Natsios. Typically they are a million, \$2 million, \$3 million. OFDA, the Office of Foreign Disaster Assistance, never bids grants for humanitarian agencies. We are not talking about private businesses now, these are humanitarian agencies and U.N. Agencies.

Ms. Kilpatrick. And NGOs and the like?

Mr. Natsios. That is right. That is different. Contracts-- sometimes we extend the contracts for a year or two or something like that.

Ms. Kilpatrick. If they are working somewhere else can they now be extended to work in Iraq?

Mr. Natsios. No, no, no, only in the country under the contract. For this set of contracts, for this country, we are competitively bidding them under this shorter process. They were competitively bid. They were done. All companies also have to have security clearances because when they bid they had to look at national security information. Some of it is top secret in nature.

Ms. Kilpatrick. Sure. That makes sense.

Mr. Natsios. That is one of the reasons we did not use companies from all over the world. They don't have security clearances. That is why all the prime contractors are American. The subcontractors--we signed a waiver in January to allow us to bid with subcontracts any country in the world other than those on the terrorist list. Libyan and Cuban countries are not going to be bidding for subcontracts. They will have to conform to Federal procurement law, and many of those contracts will be open to smaller companies, women-owned companies, minority-owned companies, in the United States, and in the region and in other countries.

Ms. Kilpatrick. Mr. Natsios, how much do you think would be required to rebuild Iraq?

Mr. Natsios. We do not know because the country is not an authoritarian society, it is totalitarian. It is more like Stalinist Russia or North Korea. The government controls everything. So until the government is gone and we can go in with our teams which are in the region now to do assessments, we don't know for sure. We have based our estimates on intelligence briefings, on scholarly literature, and on briefing the expatriate community who are Iraqis.

Mr. Kolbe. I neglected to start it for about 2 minutes. So your time is up.

Ms. Kilpatrick. Thank you, Mr. Chairman. Thank you, Mr. Natsios. I saw you hitting my time over there.

Mr. Kolbe. Mr. Wicker.

Mr. Wicker. I just assumed we had moved to the 7-minute rule. Let me just ask a couple of cleanup questions from Mrs. Lowey. We have a request for 2.44 billion for Iraq relief and reconstruction. There is \$1.7 billion that the Secretary of the Treasury has frozen, but that all may be spoken for.

Mr. Armitage. Not all of it but a fair amount. A portion, \$200 or \$300 million for sure.

Mr. Wicker. Do you think any of the frozen money will be available in 2003, Mr. Secretary?

Mr. Armitage. Our hope would be if we could get an interim Iraqi authority standing up quickly in a recognizable path to a more representative, transparently representative government that some of that money could be made available. But I think it would take some coalition oversight until we have an absolute democratic government, or elected government. Let me put it that way. That is in theory, Mr. Wicker, it is available.

Mr. Wicker. I understand. For either of you, we talk about oil revenues and that they belong to the Iraqi people and I think we all support that. What is the amount of annual oil revenues for Iraq?

Mr. Armitage. I understand it, don't think my numbers are wildly off, it is relatively efficient oil because some of the Oil-for-Food Program monies over the last 10 years have been able, legitimately and legally in terms of the U.N. Security

Council resolution, to go into repair of pipelines and things of that nature. And I believe I am right that the estimate is anywhere between \$12-, \$15- and even \$18 billion, as I understand it.

Mr. Wicker. All right. But none of that will go to this \$2.44 billion in Iraq reconstruction; that comes from the American taxpayers?

Mr. Armitage. That is correct.

Mr. Wicker. My general question is this: We win the war, hostilities cease. What are the scenarios for who controls the country of Iraq immediately after that? Does a U.N. Administrator come in? Do we have a United States military governor? Will the Iraqi resistance be put in place immediately? At what levels are these decisions being made and when do you think we might know something?

Mr. Armitage. These are decisions being made by our President with the advice of Mr. Rumsfeld and Mr. Powell and Dr. Rice and others, such as John Snow. Second, we are not going to have a U.S. military generalship. It is not going to be Governor Tommy Franks. He has other jobs and other things to do. We have envisioned, and it is enshrined in a national security presidential directive, that we will have an interim civilian authority. We have within the State Department, for instance, eight officers out there now, another eight ready to go to be senior advisers in various ministries.

Mr. Wicker. Iraqis.

Mr. Armitage. No, these are U.S. There are Treasury advisers, Commerce, all the members of our bureaucracy, various homes in our bureaucracy have provided membership. This is Jay Garner's team. Our intention is as rapidly as possible to put into place and help bring into being an interim Iraqi authority. The word ``interim'' is very important here. Mrs. Lowey asked in her opening comments or made a comment about the role of the opposition. And clearly the Diaspora opposition, who are now in the main, and Salahuddin and Dahuk in northern Iraq have a big role in the future. They for 20 years fought against this regime from outside. Equally there are opposition leaders and tribal leaders internally who have fought for 20 years under the regime of Saddam Hussein. And there has to be a role for both of those, the external and internal opposition. My gut only tells me that probably those who have lived under the brutal regime probably will ultimately find their way to some positions of leadership.

It is our desire to turn over certain of the ministries as rapidly as possible to Iraqis. Now, that is not going to mean that the Ministry of Defense is turned over to Iraqis in the near future. I suspect the Ministry of Intelligence will disappear. It has to be torn out root and branch as a Ministry of Interior. But other ministries could have Iraqis. Not everyone who works in a ministry is a member of the Ba'ath Party necessarily and is certainly not necessarily a bad person. It will take some time to sort out who is wheat, and who is chaff. This is one of the things that the coalition will do.

But all of this leads, Mr. Wicker, as rapidly, again, as possible, to some sort of transparent process which allows representatives from all 18 provinces of Iraq to choose who

they want to lead. It has to, in our view, have some representation from not only Sunni and Shia, but Turkman, Caldeans, the Syrians, all groups in Iraq. And this is not beyond the ken of man. We did this in enormously rapid time with Afghanistan. This is not the same situation, but perhaps a similar process could be employed.

Mr. Wicker. Thank you.

Mr. Kolbe. Ms. Kaptur.

Ms. Kaptur. Thank you, Mr. Chairman. Gentlemen, welcome. I would like to ask a question about the roots of unrest that result in terrorism. I am particularly interested in the Palestinian refugee camps and the Saudi-funded madrassas throughout that region. Now, as I read history, September 11th, 1922, marks the date of the mandate by the League of Nations to create a homeland for the Jewish people in Palestine. And every member of this committee with our voting record demonstrates a contemporary affirmation of that decision to sustain a modern Israel. But we have never been able to deal with the Palestinian question effectively. I am concerned about the million Palestinians that still remain in refugee camps in Lebanon, Syria, the West Bank, Gaza, Jordan, et cetera. I would like to know what in this supplemental proposal addresses that issue.

And, secondly, we know that the majority of hijackers on 9/11 came from Saudi Arabia. What are we doing to try to address the Saudi-funded madrassas throughout that region? Right after 9/11 I brought a physician from my district over to the State Department, who over the last 10 years, long before 9/11, had been trying to create schools in Pakistan to counter what he saw as a growing threat. I would hate to tell you the difficulty we have had in working with the government of the United States to try to give legs to that effort in that region of the world.

So, those are my first two questions on the roots of terrorism. The Palestinians, who are in refugee camps and also the madrassas, face a great crisis in terms of education and cultural understanding. We obviously have a pretty bad problem here or we wouldn't be at war, and the problem isn't only with Iraq. And I would like to know what in this budget relates to education, particularly greater support of our institutions, the American University in Beirut, Lebanese American University, the American University in Cairo, in order to try to help to rebuild from the underfunding of those institutions over the last several years.

Mr. Armitage. Thank you, Ms. Kaptur. The money envisioned in this supplemental, \$50 million, is for West Bank and Gaza, Palestinians to be--should the Congress see fit to vote the money, to be administered through NGOs for two specific general aspects. One is to try to increase the economic activity and benefits to the Palestinian people. Their economy has contracted minus 27 percent since the Intifada began. And secondly, to continue to try to wean them away from dependence on terrorism directed against Israel. This money, specifically, ma'am, does not go for the camps in Lebanon to my knowledge. I think that is correct.

On the question of the Saudi madrassas----

Ms. Kaptur. Would the gentleman yield for a moment on that? I think there are over 400- to 500,000 Palestinian refugees in

Lebanon, is that correct?

Mr. Armitage. I am not sure of the number. There is quite a number. Andrew, do you want to respond?

Mr. Natsios. Just on the question of--I don't know which madrassas are funded by Saudi Arabia. It is not clear to anyone. But let me just make a comment on the madrassas though. In Pakistan the public education system basically completely collapsed in the last decade. Our first initiative there is to spend \$100 million over the next 5 years on rebuilding the education system. That was the request of the Pakistani government so that parents have an alternative. Many parents have sent their kids in Pakistan to those madrassas because there is no other alternative.

So it is very important we do that. The Minister of Education has told us that she is very pleased with the effort we are doing. In fact, she wants to expand it more rapidly, the work we are doing to rebuild those schools. We have done the same thing in Alexandria, Egypt in a new curriculum, a new reform effort in Alexandria, Egypt that the Egyptian government liked so much, particularly the First Lady of Egypt, that we are now extending that into central Egypt, which is, by the way, where a number of the terrorists also came from, and to upper Egypt to the poor areas. But it has worked in one place. We believe it will be widely and enthusiastically accepted in other areas. It is a curriculum that encourages debate and not rote learning. It is a curriculum where parents are involved in their kids' education. It is a decentralized approach. We have done the same thing in Jordan and same thing in Morocco and it has worked very well.

So in terms of education reform that has been attempted very successfully in a number of these countries, just a matter of scale.

In terms of the refugee camps, the Palestinian refugees, in terms of the amounts of money spent is much more per capita than any other refugee population in the world by a factor of 10. It is a very large amount of money. The problem is it is not a good place to be, in a refugee camp, no matter how much you spend. The answer ultimately is to resettle people in communities and have jobs and a private market that creates hope for the future.

We have a program in southern Lebanon in many of the Palestinian communities in which we have the communities decide which projects to undertake through American-based NGOs. These are American-based NGOs, but they decide whether they are going to rebuild wells or the schools or micro enterprise projects. But they are run by Western NGOs so we maintain accountability and there is no problem with it. Those areas we do have these projects that we have undertaken and they are quite successful actually.

Ms. Kaptur. Mr. Chairman, I didn't get an answer on the institutions of higher learning.

Mr. Natsios. Oh, you mean American universities? We have continued through ASHA to provide funding to the American University in Beirut and the one in Cairo. I am not aware that we have cut the funding in those accounts in the last decade, but I will look it up. When I was in charge of those programs in the first Bush administration I recall seeing that those



accounts----

Ms. Kaptur. Scholarship programs have not been administered in the way Congress had asked.

Mr. Kolbe. Mr. Kirk.

Mr. Kirk. Thank you, Mr. Chairman. Mr. Secretary and Mr. Administrator, I support this package and I am going to make sure that you have what you need. I was particularly impressed in the budget documents you submitted. You have lined up eight nations to join the UK and U.S. on peacekeeping; according to your documents, Poland, Hungary, Czech Republic, Estonia, Latvia, Romania, Lithuania and Bulgaria. We have a total aid package here for 24 countries as I count it, and you have talked about a national security directive outlining your view for postwar Iraq. Can we see that?

Mr. Armitage. I think it is classified. I know it is not a public document.

Mr. Kirk. Can you transmit that in classified form to the committee?

Mr. Armitage. I will refer it to the White House. I just don't know the answer.

Mr. Kirk. Okay. I think that would be helpful.

Mr. Armitage. Let me be clear. It is not sort of our whole vision of postwar Iraq. It is the immediate mechanism for postwar Iraq.

Mr. Kirk. Great.

Mr. Lewis. If you would yield for a moment, I believe if nothing else could you transfer it to the intelligence committee?

Mr. Armitage. Absolutely.

Mr. Lewis. A Member could see it there if he wished.

Mr. Kirk. That would be great. On the complex emergency fund, the budget justification, \$150 million, is four lines long that were given to us here. And I am worried. This is unforeseen complex emergencies pursuant to the national interest making allocations to any other Federal agency notwithstanding any other law. Sounds pretty much like it is waiving Article I.

Mr. Armitage. For peace and humanitarian intervention operations. That is what we require. The point does not change by what I just said.

Mr. Kirk. You don't mind if we delete those provisions.

Mr. Armitage. I expect it.

Mr. Kirk. Right. Good. I want to go on to some other things I hope we delete. A transfer authority of \$200 million but it is written that we can transfer \$200 million but I don't know if we transfer from international programs to Department of State, international--is that \$200 million per incident, \$200 million for this package, \$200 million total?

Mr. Armitage. It is total. You are not talking about the general provision, Mr. Kirk, you are talking----

Mr. Kirk. Correct. Any appropriation made available. This is very inartfully worded.

Mr. Armitage. Just the general provision. We are talking about the three State accounts. And what we are--and \$200 million total could be transferred among those three. What we are talking about there is we have a certain idea of how much money it will cost for us to, for instance, set up an embassy

in Baghdad. But we may be wrong. That is the kind of thing we had in mind, and we may need access to some funds.

Mr. Kirk. You have a request for the embassy in Baghdad already in another part of this?

Mr. Armitage. That is correct.

Mr. Kolbe. I think there is money in a separate account under the Commerce-Justice-State for the embassy in Baghdad.

Mr. Armitage. That is correct.

Mr. Kirk. For the Iraq relief and reconstruction project it is for necessary expenses in and around Iraq. What is around Iraq?

Mr. Natsios. Oh, okay.

Mr. Kirk. Do we say neighboring Iraq?

Mr. Natsios. We want to be able to say, for example, if there is a food shortage in a village and we have to go over the border in Turkey to buy some of the food to bring it back to the village in northern Iraq.

Mr. Kirk. Can we say neighboring Iraq? Because around Iraq I want to make sure that we are not going to a totally unauthorized event that this committee has not approved in this, Malawi.

Mr. Natsios. No, not the intention. But we might want to go to Oman, let's say, or something like that. So it shouldn't necessarily be contiguous.

Mr. Kirk. A transfer authority made available to any government activity to meet any such cost. That sounds really broad. Okay. So we will delete that. And then except----

Mr. Armitage. I hope we will be able to discuss deleting that.

Mr. Kolbe. Done.

Mr. Kirk. Except from any person, foreign government, or any contribution for such purposes. But that of course would be subject to the conditions of U.S. law and the Appropriations Committee, correct?

Mr. Armitage. That is correct.

Mr. Kirk. Which is not how that provision is written. So I hope you don't mind that I would like this to be a deal where we provide you with the cash in a way that you can account to the taxpayer for. Because the way this was written I would say to the State Department and AID lawyers, nice try. But I think there are a lot of precedents that we do not want to set here because above everything else the Constitution is what you and I both swore an oath to protect and I think we are going to need to do that here.

Thank you, Mr. Chairman.

Mr. Natsios. Could I add, I talked with the Inspector General of USAID and I encouraged him to set up an office in Iraq from the beginning to make sure everything is done exactly according to Federal law and so it is completely transparent for everyone. He had the same idea himself. And I said Everett, do it. We need your oversight and we will work with you, from the beginning, not after it is all over.

Mr. Kirk. But remember the language you sent us said notwithstanding any other Federal law. So I want to make sure that doesn't appear in the final legislation.

Mr. Kolbe. You see, Secretary Armitage, Mr. Natsios and all the ladies and gentlemen sitting behind there, that is what

happens when you allow a former staffer to become a Member here. Sometimes just get caught on----

Mr. Armitage. No, instead he is a naval officer, sir.

Mr. Kolbe. Mr. Jackson.

Mr. Jackson. Thank you, Mr. Chairman. Let me first begin by associating myself and the remarks with the thoughts of the former staffer who is now an extraordinary Member of Congress from the State of Illinois. The parts of this bill, Mr. Chairman, that bypass Congress' responsibility for oversight I would hope would appear in a manager's amendment to whatever supplemental we consider, so that we can assure that our----

Mr. Kolbe. Would the gentleman yield? You can be sure there is going to be a manager's amendment.

Mr. Jackson. Appreciate that, Mr. Chairman. Let me thank you, Deputy Secretary Armitage, for being here. Deputy Secretary, after reading the supplemental request I have become very concerned over the direction our government is going in both its foreign policy and its military policy. I understand the supplemental request has contingency funds for the Pentagon but does not replenish all development funds that have been reprogrammed for Iraq, short-changing Africa and Latin America. I also understand that this supplemental is based on 30 days of war and 6 months of occupation. After looking at the administration's request it appears, though, you want unlimited flexibility with the taxpayers' money and that spending decisions will be made at the discretion of the administration, yet the details of those decisions are a bit unclear, which is what I believe my colleague from Illinois was essentially getting to.

From outside the administration it appears that this war is going to take a little longer than 30 days and 6 months of occupation. The President has said that we will be in Iraq as long as it takes to win the war. What I am asking you, Deputy Secretary Armitage, is will we be in Iraq as long as it takes to win the peace?

Congressman Wicker brought out the concept and the idea that there are a lot of interests within Iraq, outside of Iraq, opposition forces, opposition groups that have concerns and have an interest in a restructured Iraq. In other words, since we are not going to have General Franks as the Governor of Iraq, what is our commitment to Iraq after the military campaign is over? And if we are there to win the peace, is it your opinion that gunpoint democracy will work in Iraq in a post-Saddam Iraq?

Mr. Armitage. A point--just so I would make sure we understand--I would not agree with the term 6 months occupation, 6 months presence. Our whole coalition's desire is to remove ourselves militarily as soon as possible. But the budget is built on a presence after a 30-day war, sir, of 6 months, you are correct.

On the question of how are we going to stay to win the peace, my view is it would be folly to ask young men and women to sacrifice themselves if we weren't totally dedicated to winning the peace. And the President has spoken about it. Everyone in his administration is four-square behind that. My answer to you, sir, is, ``yes'', we will stick with it. And I hope we are open enough and credible enough with the U.S.

Congress and members of this subcommittee and others to be able to win the support to stay for the long haul. I don't know, by the way, that that necessarily means tremendous amounts of money 10 years out from here. I am not talking about that. But to stay, to have the political will to stay involved so we don't have to engage in gunpoint diplomacy. And it won't work. If we can't develop a society which sees a way to resolve their, whether it is religious differences, ethnic, or tribal differences, other than at gunpoint, then we will fail, and we are not inclined to fail, we are not doing this to fail. We are aware of the dangers, and there are plenty. You know them as well as I.

Mr. Jackson. Administrator Natsios, I understand that you have been reprogramming substantial funds from core development programs to fund Iraq, Afghanistan and other crises. I am deeply concerned that \$110 million has been reprogrammed and would not be replenished under the supplemental and an additional \$100 million will be reprogrammed in the coming weeks for use in Iraq for a total of \$200 million of development resources for Iraq. Furthermore, in your 2004 budget request you have identified \$150 million in development resources to go towards Afghanistan that comes at the expense of existing developing programs in Africa and Latin America. The trend that seems to be emerging is that we are spending more and more of our development resources on emergencies. Are you sacrificing the development needs and mandates of your agency?

In other words, we seem to be providing the pound of cure but not the ounce of prevention. Perhaps we need to be providing sufficient resources to allow you to meet both the critical humanitarian and development needs of your agency.

And while this is directed directly at you, Administrator, I would like a comment from Secretary Armitage in that, as you know, this committee, particularly the subcommittee, functions under unusual constraints, foreign operations, in terms of its decreasing amount of the part of the overall Federal budget. But increasingly, as some of us on the committee fight for more resources in other developing parts of the world, these emergency crises will begin to drag and draw more from an already devastated foreign operations budget. And I would like your thoughts on that, please.

Mr. Natsios. First, let me say that we made a decision, Secretary Powell and I and Secretary Armitage and the President, to increase the amount of money going to Africa which had been steady for 15 years. If you look carefully at the account, it has been around \$800 million. This doesn't include the emergencies. This is the development assistance accounts with the health accounts. We made a decision to go to a billion dollars. That is what we have done as of this year. If you look at the appropriations bill, I think it is actually higher than for this year, although I haven't looked at the latest OYB. But you approved what we asked for plus some. So the budget for Africa has gone up 25 percent in this administration over 2 years, first time in 15 years that has happened through four administrations. So we have a good record in Africa.

I am an Africanist, I love Africa, I have spent a lot of

time there. We are committed to it. On the development side, on the health side, on the HIV side, the President has made an announcement of a massive increase of funding for HIV/AIDS, which is in the 2004 budget. You have to include that, too, because that is part of development assistance, is the account for stopping the HIV pandemic in Africa as well as other areas of the world, although Africa is the most severely affected.

On the relief side, we are facing two massive crises at the same time, the Southern African drought and East African drought. We have provided 660,000 tons for the Horn of Africa, more than anybody else in the world combined, to deal with that famine. And in Southern Africa we provided another 500,000 tons of food.

You have given us another \$250 million for food aid for this year over what we requested. So I want to thank the committee for doing that. It is very important we have that extra food. But the point is we got to do both the emergencies. We can't let people die in a famine because there has been a massive weather problem or whether we have a problem in a country like Zimbabwe, where the government is responsible for the crisis. So we are doing both at the same time, but we are increasing the development assistance account in Africa.

We are committed to do that. The commitment from OMB and from the President and from the Secretary and myself is to restore all of the money we have borrowed. Now, I have heard different, the figure that you gave was \$200 million. Congresswoman Lowey mentioned \$85 million, I believe, that was not refunded. So there is a debate.

I think the numbers we have to go over carefully perhaps with staff to ensure that what we have committed is in fact happening. I went over the figures last night with our staff, and the language of the bill does allow us to be reimbursed. But we would be glad to work with you to ensure. I do not want, nor does Secretary Powell nor Rich Armitage, want our accounts cut for this year. We did these transfers to meet the major security threat we are facing with Iraq with the money we had, but we want those accounts restored now and we want to work with the committee to ensure that happens in this bill.

Mr. Armitage. I did want to make the comment I am quite proud of our record in Africa. I am not an Africanist, as my colleague is, but, like Secretary Powell, I am a humanist. We have tried to attack, with the help of the committee, HIV/AIDS, which is decimating the continent. We are working hard on the Millennium Challenge Account, which will benefit certainly African countries, and I think our record in face of this famine and our record in standing up against people like Robert Mugabe is a great testimony, not to the administration, but to this Nation.

Mr. Kolbe. Thank you. Let me just add, Mr. Natsios, that if the Agency intends to have additional borrowing next week from accounts while we are marking up this bill, you need to let us know that before this weekend.

Mr. Crenshaw.

Mr. Crenshaw. Thank you, Mr. Chairman. I have a question about the reconstruction effort. You talked a little bit about that. The \$2.4 billion of American taxpayers' money that is going to go into that, while we do not know the exact costs, we

know that is what is in the bill. And I certainly fully support that. But the question becomes, this last week the French Government said that even though they do not support the war, they would like to participate in the reconstruction effort. I think Germany and Russia had similar sentiments. And, as I understand it, in Afghanistan some of the other countries have participated in terms of their economic assistance, and some of the businesses in those countries were awarded some of the contracts.

Can you talk about how that works, and are there circumstances under which contracts, subcontracts, might be let to businesses in countries that did not support our effort and our allies' efforts? Could you talk a little bit about that and under what circumstances, if any, that might happen?

Mr. Armitage. Yes, sir. If I may, I think that you were very diplomatic, but I think you are pointing sort of in the direction of France, particularly with the recent comments. I think the human response is ``hell, no.'' I think the more thoughtful response is, if it is in our interest, we will do it. Secretary Powell once described the U.S./French relationship as one of 210 years' duration spent entirely in marriage counseling. And I think that is probably not a bad analysis. And from our point of view, if France has something to bring to the table, then we will take a good look at it, although I think the natural desire for most of us is to push away.

Look, allies or people who shoulder the burden in any terms should be allowed some of the benefit. But let us keep our eye on the main benefit, which is the benefit to the region, by having an Iraq which can fully participate in the life of the region rather than a pariah which has sucked the life out of the region.

Andrew, you can talk about contracting.

Mr. Natsios. Our two major objectives in all contracting that are competitively bid is to get the lowest price for best quality and that is in any business and any government agency. That is our objective here. All of the prime contracts were given to American companies. They have not been yet, but they will. Why is that? Because of security clearance requirements as I said earlier. The bidding was done quietly a couple of months ago, because it was a national security question, and there were top secret documents that our contractors had to read in order to bid on these documents. And so we chose American companies that had a history of doing work for the U.S. Government, knew our accounting requirements, our IG requirements, and who had no claims against them for court rulings that something had been done improperly, there were no IG findings of abuse or anything of that sort.

So we went through a careful process. Let me just say, it was career Foreign Service officers. I gave them instructions: There will be no political influence on the way in which those companies were chosen. It was done entirely on the merits. And I said, have technical teams review the engineering documents and that sort of thing. We did that exactly as the Federal procurement law requires. This was done in accordance with Federal procurement law. We are very aggressive about pursuing that. I do not even know the companies that were chosen to bid,

the seven companies, for example. I did not want to know. I am not supposed to know under Federal procurement law.

On the subcontracts, maybe 50 percent of these contracts will be subcontracted. We will not bring every single construction company from the United States to do a local road somewhere. We will hire a local company or a company in a neighboring country. We have an Afghan construction company that is doing subcontracting on this big road we are building in Afghanistan, but the prime contractor is an American engineering and construction company. So some local work will have to be done by subcontractors, and maybe they will be competitively bid, but these two standards will be met: low price and high quality.

Mr. Crenshaw. Thank you. One quick question on the frozen assets, the \$1.7 billion. Did you take into consideration, as I understand it nobody knows, there may be another \$3 or \$4 billion out there that we are trying to freeze. Tell me again; I know \$300 million was going to be used and then that left \$1.4 billion. Where do you see that going and how much is left to possibly use in this reconstruction effort? And then is there any kind of anticipation for looking in terms of freezing additional assets?

Mr. Armitage. Yes, sir. We have gone out to other countries and asked them to explore the possibility of freezing assets in their nation which might be held by the Saddam Hussein regime, with mixed results. It is a matter of classification, and I will be glad to share it with you privately. Ultimately there may be some more money out there. The \$1.74 billion, I think it is, approximately \$200 to \$300 million we have set aside because there will be claimants, as I have suggested, who suffered from terrorism because of Saddam Hussein. The rest on the money in theory could be available for any number of things.

We have not come down on a final answer of whether it should be used for the Government of Iraq, but we do feel the new Government of Iraq will need some access to money. There will be salaries to pay and bureaucrats to pay, and all of that. Also there will be reconstruction costs. Our plan is once we get a better handle and our arms are somewhat more around whatever reconstruction costs might be, to make decisions on how that money should be allocated. Ultimately our view is the President has vested it but in fact he has vested it on behalf of the future Government of Iraq.

Mr. Crenshaw. Thank you, Mr. Chairman.

Mr. Kolbe. Thank you. We will begin a second round of questioning. It is my understanding that the Secretary has until about 5:45. At that point we will have to adjourn the hearing. I will try to be as quick as I can.

I want to try and touch on something that really has not been explored that much and that is the nature of the loan guarantees that are in here for the different countries, \$9 billion for Israel; \$8.5 billion for Turkey; \$2 billion for Egypt. The authority is permissive and of course it is positioned, in a way, as a request to Congress. It will require zero additional appropriations for the subsidy cost because the countries pay that down themselves. It is set a bit differently under this request. The countries can exercise the choice of whether or not they wish to pursue the loan guarantees. They do

not have to do that, and if they do, they would pay back the equivalent subsidy cost to the U.S. Government as a set-aside in case of default, and they can do that using their ESF funds, in the case of Turkey and Egypt, and, in the case of Israel, using its own fiscal resources.

I have a couple questions about this. I know you have been in consultation negotiations for months with these countries and the packages differed during a run up to this conflict, so I know these discussions have been very intense and very detailed.

First, Mr. Secretary, why was the decision made not to explicitly request loan guarantees? I ask this because the permissive request and the potential use of ESF funds simply looks like a complete circumvention of congressional consideration of what the appropriate subsidy costs would be for these three countries. Why was it not made explicitly?

Mr. Armitage. I think they are a little different for each one. On Turkey, when we originally discussed this, these discussions were primarily held by Treasury, sir. We were looking at a huge--and still are--economic problem in Turkey. They had desires of a certain amount of money if they were to participate fully with the United States in the Iraqi Freedom Operation. Those desires from our fiscal point of view were unrealizable, they were unrealistic.

One way to do it was to use the monies that might be available as leverage, if I can use the term, against loans. That is where we started. We entered into the discussion with Turkey. We are talking about \$6 billion, sir. Now we have a billion-dollar package. It is, we believe, possible if that is what they desire, to use that to leverage \$8.5 billion in loans. Alternatively, there may be another use of the money, whether it is budget support or something else, and we felt it was better to have something to be able to negotiate with them as we moved forward that best meets their and our needs.

Egypt is a little different. It is another \$300 million appropriation, loan guarantees for 2 years for \$2 billion. The Egyptians were extraordinarily helpful and have been in this recent activity. As well as, I might add--and this is not related to this request--their activities in the search for peace more broadly between Israel and the Palestinians. And, again, we want to give them some say in their future and we want to be able to negotiate with them on this whether they want to use the ESF for something other than leverage or the subsidy cost, if I may, the loan guarantees. And Israel came to us with their request and wanted, as I understand it, the loan guarantees in this form.

Mr. Kolbe. Can you discuss with us what conditions the President might seek to negotiate with regard to these loan guarantees? If Congress were to provide this authority and the countries were to seek them, what specifically kinds of---

Mr. Armitage. On the question of Israel, Mr. Chairman, we are having, as I indicated, that meeting today and tomorrow at the White House to find out what we feel is appropriate and, as I said, is both economic in terms of structural reform and political reform. And the discussions, I do not know where we will come out on them, but the political elements have to do with the 1991 agreement that Mr. Obey mentioned as a starting



point. That is, if there were new settlements, it would be a one-for-one deduction, but that has not been decided.

On the question of Turkey, I am not confident. I am just not, but I will supply it.

Mr. Kolbe. I assume whatever the outcome of the discussions with these countries, the question would be if there are loan guarantees, that would be discussed, shared with the committee, the subcommittee.

Mr. Armitage. I will so commit.

Mr. Kolbe. Thank you. Let me turn in my brief time that I have got remaining back to the issue I started out in my first line of questioning. That is the United Nations and its role. It seems to me we have got ourselves in a little bit of a box here. We are not happy with the role that the Security Council played, and yet we recognize its importance in this. We really, as I suggested earlier, cannot go much further without a resolution from the United Nations on the Food for Oil plan, and I understand that United Nations organizations cannot operate in Iraq under U.S. Jurisdiction. That is, they have to have a resolution. And I believe I saw in the paper today that UNICEF has said they cannot accept any contract, they cannot do anything at this point. Is that correct, Mr. Natsios?

Mr. Natsios. That is true, as I understand it, on the reconstruction side. It is not true on the emergency side. U.N. Agencies do not require a Security Council resolution to work in emergencies, World Food Program, UNICEF. But in the reconstruction effort, as I understand it, they would require a Security Council resolution.

Mr. Kolbe. When, then, does relief turn into reconstruction? I am not sure I understand. Is there a time frame on that?

Mr. Natsios. There is not a legal time frame, but generally we look at a shorter time frame for the efforts that we do 3 months, 4 months. And what you do is you do the minimal amount needed to reduce human suffering and save human lives. That is what relief is. You do not do long-term reconstruction.

For example, if a water filtration system broke down that had been working before, we would repair it as a relief intervention. We would not, however, take all the old equipment out and replace it with new equipment and do that because that would be beyond immediate relief requirements.

WFP does 90 percent of its work now in humanitarian relief, so they are the emergency food agency of the United Nations. The U.S. Government is their largest donor. We give 50 to 60 percent of their food each year. It comes from America to the World Food Program for some time now, and they are going to be in charge of running the food system of Iraq, this public distribution system.

Mr. Kolbe. But they would require a resolution.

Mr. Natsios. No, they do not require a resolution.

Mr. Kolbe. Not this relief part?

Mr. Natsios. No.

Mr. Kolbe. Thank you very much.

Mr. Natsios. As I understand it. I am not a lawyer. But my understanding is they do not require one.

Mr. Kolbe. Okay. I thought they did.

Mrs. Lowey.

Mrs. Lowey. Thank you, Mr. Chairman.

Mr. Secretary, I am not a former staffer, but in the justification documents you submitted, it indicates that the 50 million in ESF requested to the West Bank and Gaza will be used to directly support the goal of ``development of the Middle East peace where two states, Israel and Palestine, live side by side.'' the funds will apparently be used to support Palestinian civil reforms and to create credible institutions of a Palestinian state free from the taint of corruption and terrorism, as well as other initiatives.

As you know, the fiscal year 2003 Omnibus Appropriations Act included a provision prohibiting a Palestinian state from receiving funds until certain conditions were met and maintaining restrictions on funding to the Palestinian Authority. Have you evaluated the proposed uses of this \$50 million for compliance with these provisions?

Mr. Armitage. Yes, we wrote that, and I want to be clear. I tried to clear it up when I reread this submission. I tried to clear it up in my own testimony. The \$50 million is going to support ongoing humanitarian and development activities in the West Bank and Gaza, the point being the money is not going to the Palestinian Authority. It is going to the NGOs. And I think you can read it in either way in our submission, and I clarified it, I think--I hope--in my statement, ma'am.

Mrs. Lowey. So does that mean we will have a clarification?

Mr. Armitage. I think the language itself, now that I have reread it, I think it could be read either way, and I tried to clarify that here. That is it. It is on the record. If you ask me that tomorrow, I will say the same thing. Remarkable consistency.

Mrs. Lowey. Thank you very much. Just following up on questions that several of us asked but I would like to pursue it for a moment, and that concerns post-war. Again, from your perspective, how will we involve Iraqi opposition groups and specifically the Iraqi National Congress in postwar Iraq and what do you think the U.N. Role war in postwar Iraq governance ought to be?

Mr. Armitage. The Iraqi opposition and the INC is one of the major elements of the diaspora opposition, will have a very important role. It has not been defined. They will clearly have to be part of the Interim Iraqi Authority; as will, as I have suggested, tribal chieftains, opposition leaders who have remained in the country. I did say to the members of subcommittee that my gut tells me that ultimately people who have been inside for 20 or more years, suffering under Saddam Hussein's regime, may have a slight lead in terms of bragging rights and whatnot in terms of a post-Iraq. That is only a human feeling on my part. It is not a judgment of the administration.

It is clear that we will have to have, if we are going to try to develop an Iraq which, to use Mr. Jackson's phrase, is not one that lives by gun-point democracy, that all who have a stake in that Iraq are going to have to be represented--Caldean, Turkman, Syrians, Sunni, Shia--all. Beyond that, we have not determined on the proper mix. This is something that I think is very important for the coalition to be seen in consultation with the Iraqis, both the diaspora and internal

opposition. With the diaspora, it is easy to do. Dr. Khalilzad and some of my state colleagues are even with them now. And I received a call from Zal today on this subject.

I should have added when I said about the opposition, the Kurds will be a major part of Iraq, and I did not mean not to include them. Of course, both major Kurdish parties. But it is--even the developing IIA, if you will allow me to use the term, is going to have to be something that is transparent. Even though it is interim and temporary, that people see that there is some process and some sense, some logic, if you will, to the development of this Interim authority.

Mrs. Lowey. I thank you, Mr. Chairman, I know you are moving along here. Thank you, Mr. Secretary.

Mr. Kolbe. Mr. Knollenberg is next.

Mr. Knollenberg. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Natsios, thank you. This question would apply to both of you because I know you are involved in MEPI. I happen to have a strong feeling about MEPI. And obviously just before I get into that, I wanted to thank you also for upping the number on Jordan. I think there is \$1 billion that Jordan will receive. They are in a rough neighborhood. In fact, the Trade Minister from Jordan met with me. He said, ``Yes, '' ``we are in a difficult situation. We are between Iraq and a hard place.'' You have probably heard that many, many times. I believe that is attributed to the king. I appreciate that.

But then on to the question of the supplemental as it applies to MEPI. MEPI, we just talked about that in terms of the 04 budget and now we are looking at a supplemental--I believe the 2004 request is \$145 million, the supplemental request is \$200 million. And my question is simply this: As much as I have strongly supported MEPI, I am wondering why the infusion of \$200 million--why the additional money? It is not that I question why you are doing it, except that I would like to have you justify why now? Why in this supplemental?

Mr. Armitage. First, on the first question on Jordan. The submission was \$700 million in ESF and \$406 million in FMF that we have proposed to the Congress. The direct answer to the MEPI question, sir, is that we are in a hurry. We are in a race. And what we have done heretofore has benefitted some people. It certainly has not been sufficient to increase our own stock, if you will allow me to use that term, in the Middle East or in the Arab world, nor was it sufficient to keep very, very discordant voices which turned into discordant actions and terrorism from developing from the Middle East.

We feel we need to do things differently, in addition to what we have done, and I think quite well actually, but it was not fast enough and it was not broad enough. I am reminded humorously, and I do not mean this facetiously at all, Mark Twain said that even though you are on the right track, you can get run over if you are not going fast enough. And that is the feeling we have.

We have not done enough with education. We have not done enough with political openness, and we clearly have not done enough to open the economies of these nations, and we want to really get out and see what works. We experimented to some degree with the pilot program of a little over \$20 million. Most of the money, although not all, has been allocated. There is some left

and now we feel we are ready, in the words of our hero onboard the Pennsylvania aircraft, we are ``ready to roll''. And that is what we want to do. That is the straight answer. We are in a hurry.

Mr. Knollenberg. Are you using the review that you are doing of all the foreign aid, is MEPI a tool to allow you to take another look at just how foreign aid is currently being spent?

Mr. Armitage. I will defer to Andrew here. We did this in Egypt, my understanding is, with the US AID director in Cairo, and with Miss Cheney of our staff, had a rigorous scrub. We came out delighted, I ought to admit. Andrew can say if he was equally delighted.

Mr. Natsios. If I could, we did a report which we sent to Members of Congress, though I know since you get so many reports you may not have seen it, called Foreign Aid in the National Interest, and it was written by some of the great scholars in the country in development assistance. It looks to the next 10 years. Where is aid going generally, not USAID, but foreign assistance going? There is a chapter in democracy written by Larry Dunn, one of the great democracy scholars in America. It is the second chapter in Economic Growth, the third in Global Health, and it goes on.

We are changing the direction of USAID because some things that were appropriate in the past are not appropriate now. And some things we are not doing now we need to do in the future. It is very clear that democracy and good governance has a profound effect on the development potential of a society. And the places we have done a lot of good programming and that have not reformed their governance systems and have not moved to more democratic systems of governance are not progressing.

So we are going through our program now, we are making some fairly profound shifts. I gave some testimony before the Senate and the House on the authorization side on the Millennium Challenge Account, because that is what stimulated USAID to review what it is going to be doing differently in the future. This is not the place to describe that generally, but I would commend to you what we call the FAINI Report, the Foreign Aid in the National Interest. There was a report called the Woods Report, done by Alan Woods, who was an administrator under late Reagan, early Bush I. He died of cancer. And this is the second attempt to do the same thing Alan did. We call it the Woods II report. It is a very important piece, because we are looking at it as a foundation for directing aid in the future. It does many of the things, Congressman, I think you would be very pleased with.

Mr. Knollenberg. My time is up but I think you are also doing some things with MEPI that you would not be doing with current programs. I applaud that and I appreciate the response. Thanks to both of you. Thank you very much.

Mr. Wicker [presiding]. Mr. Jackson.

Mr. Jackson. Thank you, Mr. Chairman, I just have two brief questions for Secretary Armitage. It is somewhat philosophical but for the committee's purposes it gives us some idea of just how long our commitment and budget process ultimately is going to affect the emergencies that are before the committee. Our Declaration of Independence, 1776; Constitution, 1789; Bill of Rights, 1791. It is about 15 years to move our country from

independence to the idea of democracy and fundamental rights for all of the American people.

I am wondering why should we assume in Iraq, if indeed our goal is to establish a democratic form of government, that we would not have some presence, some forces, who would be present not only in Baghdad, but obviously in civil society as well, to ensure that a new democracy in its infancy would not be shepherded through turbulent elections.

I run, as members of this committee do, for office every 2 years; and I would imagine in a democratic Iraq republic that some such process for running for public office would be part of our goal in the establishment of their democracy. Is there any indication just how long we may very well be in Iraq?

Mr. Armitage. Mr. Jackson, when you started your comments, I was thinking it took us a lot longer than the 15 years. Women did not get to vote.

Mr. Jackson. Oh, the 19th amendment. I am clear.

Mr. Armitage. And civil rights.

Mr. Jackson. Absolutely. You are certainly not suggesting we are going to be there 100 years, are you?

Mr. Armitage. No, I am not. I hesitated to raise it, but we have to face up. We are very proud of our democracy. I could not be prouder. But let us be clear, it was 140-odd years into our Nation before there were equal rights and women's rights slightly before that. So these are not easy things. They are really tough.

But when you talk about being in Iraq, the question is whether you are there, I think, militarily or whether you are there with all the great institutions which are represented by embassies and corporations and NGOs, et cetera. And I think in those terms we will be, and we plan to be in Iraq for the long term, sir. And I have no idea how long that is.

But in terms of military--and I bristle at the term ``occupation,'' because it is a presence--just as long as it takes us to get rid of WMD and to bring about a stability in the country. That is why we have been so encouraged by the nations that have indicated they are willing to provide stability forces, including some Muslim states--Albania, for instance, which is a Muslim nation, non-Arab--who are willing to go in and, for instance, help guard the holy places and keep them stable, move them in and extricate ourselves from the military end of the equation, but certainly not from trying to be a very vibrant part of the life of a new Iraq.

Mr. Natsios. Could I just add something to that? People think of Iraq in the context of the South, of the developing world. This is much more like Eastern Europe or the former Soviet states. Poland went from being a terribly oppressed dysfunctional society under the Soviet Union in 1990 to in 1998 we shut down the aid mission. They now have their own foreign aid program.

With the Czech Republic and Hungary, a spectacular success story. I think we are dealing not with a poor underdeveloped society, but a brutalized, tyrannized, traumatized society. Iraq had the best education system in the Arab world 15, 20 years ago. It had universal primary education and high school education. Now, only a third of the kids are in high school who are eligible to be there. The whole system over a 15 year

period under Saddam Hussein has gradually slid into chaos.

What we are doing now is not redeveloping the country. It is simply putting the country back to--and it will take years to do, but it is not going to take decades. This was an educated society. It is an urban society. Urban societies are already much easier to modernize because they are already modernized. Tribal lines broke down a long time ago. It is 70 percent urban.

Mr. Jackson. Mr. Natsios, thank you for responding to my question, because I think we are moving toward an answer. You already said that it would quite possibly take years to do this, and that is important to the committee, because obviously with the present supplemental before the committee, there is some concern about how long this obviously can last and what the role of the United States will be and this Congress and this committee will be, particularly the Foreign Operations Committee in a postwar Iraq.

So when you say it could quite possibly take years, that is obviously a consideration that the Chairman and the Ranking Member of this committee have to factor in as we make requests before the full committee and before this Congress every year.

So what does a postwar, conservatively, a postwar Iraq obligate this committee to as we factor in budget processes in the future?

Mr. Natsios. There is one thing that Iraq has and Eastern Europe did not have and most developing countries do not have; they have a huge amount of oil. Their oil reserves are massive. If they have a democratically elected government with an educated elite running it, that is democratically elected, that protects their citizens, that serves their citizens, that is relatively free of corruption, and they use those revenues, they can rebuild the rest of their society. We do not have to do it, because they have the money. They do not even have to borrow the money from the bank because they have the oil revenues.

Most of the countries we deal with do not have revenues. They have nothing. So we do not have to be there ourselves. All we have to do is help the Iraqi people lay the foundation for them to rebuild their own society. We want to in the first year create a firm foundation for that to happen and I think this budget provides that.

Mr. Jackson. Mr. Chairman, out of respect, if I might just have one brief follow-up. Respectfully.

Mr. Wicker. Since you are doing it out of respect.

Mr. Jackson. I appreciate that, Mr. Chairman. Mr. Natsios indicated we are obviously going to put some educated elite in charge.

Mr. Natsios. No, no. We will not put in them there. They will develop themselves and their own society.

Mr. Jackson. So they will run for office and get voted on in some regular democratic process. Thank you, Mr. Chairman.

Mr. Wicker. Mr. Kirk.

Mr. Kirk. Mr. Secretary, I am a little confused by the position of the Government of Turkey right now, a place where they invented the word Byzantine. In the critical position of the operation of the Incirlik Air Base where I served--it was the base for Operation Northern Watch--to your knowledge, is the Northern Watch air operations continuing in this

environment?

Mr. Armitage. No, sir.

Mr. Kirk. The Government of Turkey right now is not allowing us to use Incirlik to support our operations.

Mr. Armitage. I believe that they are, in a way. I believe they caught two or three of our aircraft the other day, sir, who were coming back. I believe that. I will have to check it, but I think that is correct.

Mr. Kirk. Would it be okay with you or not if we conditioned the billion dollars on the full implementation of Incirlik in this operation?

Mr. Armitage. No, it would not be okay with me. I do not have the final say, Mr. Kirk. I understand that. No, it would not. I tried to make the point that right now I think we are fairly pleased with where we are with Turkey, particularly with the jump in last night. Operation Northern Watch is over. We will not have another Northern Watch nor will we have a Southern Watch. There is no need for it. We have accommodated, we are moving on. I think in a way it would be conditioning Turkey for something that has already passed and we have moved on, sir.

Mr. Kirk. We often think about the resources just in the U.S. Government's control, forgetting that we are the number one owner of the World Bank that would provide substantial amount of reconstruction authority. Have we factored in via Treasury, et cetera, to get the multilateral development banks setting up with a pipeline stream for Iraq, which, by the way, is a founding member of the World Bank?

Mr. Armitage. We have had discussions, I know with the Fund, and I believe with the Bank, and these will be affected in some measure, notwithstanding the fact that we are the largest shareholder, by what sort of U.N. role comes out in the future. It is a very important consideration.

Mr. Kirk. Just to get this thing rolling, I will give you a radical proposal and I know you may have talked about this option with Zal. If we were to recognize another liberation government in Iraq for interim purposes, that would then allow a request to move forward from this liberation government to the World Bank, that starts the whole machinery rolling. Since it is the declared policy of the allies to remove the government of Saddam, having this Interim Authority recognized by us gets the whole slow but massive MDB process rolling, and since this committee also provides substantial resources to the MDBs.

Mr. Armitage. Exactly. I do not think it is such a revolutionary idea. It is one we have discussed, but there are two aspects to it. To have an Interim Iraqi Authority, which is chosen in some manner, which has transparency to it, with the clear understanding there is another process that will develop in the longer term governance is one thing. To declare a provisional government, when you do not quite know just what you have in your hands, is another. We thought about suggesting that a provisional government should be--I do not know another word for it--installed. And it was the word ``installed'' that bothered us.

Although I am certainly not an expert in matters Iraqi, I have gotten smarter. I have only been there once in my life.

But I must say that I think that imposition from the outside is probably not the way to go with this. That is why we have been reluctant to declare provisional governments, for fear we do not understand the dynamic internally with the internal opposition.

Mr. Kirk. But it would unlock serious resources.

Mr. Armitage. You are absolutely right.

Mr. Kirk. I just want to close by saying you have had enormous experience on the front line. You know what a REMF is.

Mr. Armitage. I sure do.

Mr. Kirk. I want to just say that I do not regard the teams you represent as in any way like that, because the public diplomacy that you are doing is visibly disheartening the other side. And the provision of resources and relief materials your team is providing is showing that if you just cross the line of battle, you get food, you get fuel, you get care; and so both of you and the State Department and the ID teams you represent are visibly helping the battlefield. We recognize that.

Thank your teams for that, and we need to provide the resources to you next week to make sure things keep rolling. Thank you very much, Mr. Chairman.

Mr. Armitage. Mr. Kirk, if I may, I brought some ``show and tell'' for you. I had a conversation yesterday. I think you will be heartened by what you see, but I thank you for your comments.

Mr. Wicker. Thank you, Mr. Kirk.

Mrs. Lowey has a final question.

Mrs. Lowey. Thank you, and I appreciate the time you have spent with us. I just wanted to continue and clarify for a moment the questions regarding Afghanistan, because as we have discussed, it is not a mystery to me that we are short of funds because the administration actually rebuffed our request for funds for Afghanistan.

So two quick questions. You indicate that you require emergency ESF funding for infrastructure because fiscal year 04 funding will arrive too late to make a difference in time for the prospective June 2004 elections, and I understand the time line for elections is way behind schedule and that June 2004 is an overly ambitious target. Do you have any reason to believe this target will be achieved?

Mr. Armitage. We are still acting on the supposition that that is the target. I was under the impression, and I will have to refresh my own knowledge, that the development of the constitution might have lagged a little bit. In fact, we asked Dr. Khalilzad, not too far in the distant past, to go out to Kabul and kind of put some energy into that. That was what was lagging, but I will have to refresh my knowledge.

Mrs. Lowey. Okay. And the second request, the requests for FMF, indicates that funds are needed in part because of increased construction costs due to increasing competition for scarce Afghan construction capacity. Since we and our allies are in fact funding the majority of construction in the country, are we competing with ourselves to drive up the cost?

Mr. Armitage. What I think we are competing for is everything from aid agencies, et cetera, who suck up the manpower, the available manpower, and that has driven up the cost. It is not just a matter of resources. It is a matter of



the available people to do different jobs.

Mr. Natsios. When we started the road, no one else was building any big roads. The bank is now. The EU is. But different pools at different rates. Now many people are plugging in to do other parts of the infrastructure.

Mrs. Lowey. But it is primarily us, right?

Mr. Armitage. No, no. The Japanese have had a big stake. The Saudis have come up with money. This is anecdotal. The numbers are not exact, but about 6 months ago or so when we were talking about this ring road, and we were talking about the cost of hiring Afghan firms, et cetera, we ran into the phenomenon in talking with members of the bureaucracy where drivers for NGOs were making \$200 and \$300 a month and, of course, the Minister makes \$40.

We have started something, but I am not sure we know what we started with all these programs in Afghanistan, but we are bumping up against it now.

Mrs. Lowey. I thank you very much for your request for funds for Afghanistan. As you know, the Chair and I feel very strongly about that.

Let me thank you again for being here today. And we do have many other questions about the supplemental which we have discussed. And I know we will work them out between now and Monday or Tuesday.

Mr. Armitage. Thank you very much.

Mr. Natsios. Thank you, Congressman.

Mr. Wicker. Finally, let me follow up on Mr. Knollenberg's question about MEPI. Do we understand correctly that a master plan is being developed?

Mr. Armitage. That is my understanding.

Mr. Natsios. Yes.

Mr. Wicker. When can this subcommittee expect to have delivery of that? By the end of business tomorrow perhaps?

Mr. Armitage. I am surprised at the answer. COB tomorrow.

Mr. Wicker. That is the answer I was hoping for.

Mr. Armitage. I have never had an answer like that.

Mr. Wicker. So we are not the only people who have really, really good staffs. Gentlemen, thank you very much.

Thus ends our final hearing on the administration supplemental bill, and we very much appreciate your candor and your hard work on behalf of American people.

The hearing is adjourned.

[Questions and answers for the record follow:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Wednesday, May 14, 2003.

INTERNATIONAL EDUCATION ISSUES

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THE CENTER FOR UNIVERSAL EDUCATION, COUNCIL ON FOREIGN RELATIONS

WITNESS

GENE SPERLING, DIRECTOR

Chairman Kolbe's Opening Statement

Mr. Kolbe [presiding]. The Subcommittee on Foreign Operations, Export Financing and Related Programs will come to order.

Today we have a hearing which covers a very significant part of the work of our subcommittee and of USAID. We are here to talk about international education issues. I think that all of us recognize that ultimately international development, growth and progress in the world depends a great deal on how well we do in the area of education, how well are we providing primary education, and how well are we providing literacy in the world.

These are the issues that ultimately determine whether we can succeed in other areas of international development, that all of us believe are essential to the continued progress of bringing nations out of poverty.

We have three very distinguished individuals here who will discuss these issues, one whom we have seen around the Congress for many years in a different capacity. Gene Sperling is the director of the Center for Universal Education at the Council on Foreign Relations.

We also have Steve Moseley, President of the Academy for Educational Development and chairman of the Basic Education Coalition, an umbrella group for many organizations.

Cream Wright is the chief of the Education Division of UNICEF.

We welcome the three of you here today for what I think will be a very interesting and enlightening discussion of these issues.

Before I call on each of you for statements, and then we go to questions, let me call on Ms. Lowey, the ranking member, for her statement.

Mrs. Lowey. I would like to begin by thanking Chairman Kolbe for agreeing to hold this hearing.

And, of course, by thanking all of our witnesses for agreeing to appear today and for adjusting your busy schedules so you could be here.

I welcome Gene Sperling, who is currently the director of the Center for Universal Education at the Council on Foreign Relations; Steven Moseley, president and CEO at the Academy for Educational Development and chairman of the Basic Education Coalition; and Cream Wright, the chief of education for UNICEF.

As we all know, foreign aid is a broad category of commitments and initiatives encompassing everything from AIDS prevention in Africa to financing U.S. exports, to increasing business opportunities for poor women, to sending children to school, to developing government institutions in post-conflict societies and more. And as I have said many times before, I view foreign aid as the third pillar of U.S. foreign policy; defense and diplomacy, of course, are the other two.

And in the world after September 11th, 2001, I think this view is beginning to gain credence among more of my colleagues. As the attacks on the World Trade Center and the Pentagon

demonstrated, social movements and ideologies based half a world away can and do have a direct and tangible impact on the lives of ordinary Americans.

The problems of the world are our problems as well, and we must help solve them. And that is why foreign aid is not mere charity, it is a national security imperative.

And as we continue to reevaluate our foreign aid policy in light of current events, one thing stands out to me more clearly than anything else: We as a nation have failed to recognize the appalling state of basic education for the world's children.

A failure, which we share with the rest of the international donor community, has contributed to growing intolerance and hatred, a rampant worldwide infectious disease crisis, the continuous poor state of child and maternal health and an absence of sustained economic growth in most of the Third World.

Can all of these problems be corrected with a greater investment in education? Perhaps it is not the only solution, but it is certainly one of the most needed solutions. And I am not here to place blame on one administration or agency, instead I hope to make the case for intensifying our focus on the overwhelming need for a greater commitment and substantially more resources for basic education in all parts of the world.

We have reached a critical point. The need to do more has been vividly illustrated to us, and there is a general consensus that we must do more. Unfortunately, our response and that of other donors and the World Bank so far has been tepid, slow, scattered and unfocused.

Unfortunately, the administration's foreign policy contains no overarching policy or guidelines for education. The results, therefore, are fragmented. The disastrous impact of poor, deteriorated education systems in Afghanistan and Iraq is now clear.

The United States is now scrambling to respond with significant resources and the promises of a long-term commitment. Yet, we do not see that same urgency or commitment in any other country in the Muslim world, nor do we see a clear recognition that more resources for education broadly are necessary.

In the case of Africa, the President announced an initiative over a year ago. Just within the past few months funds have finally gone to the countries involved, and the amount is minimal; \$22 million in 2003. Similarly, the goals identified for the Middle East Partnership Initiative involve some focus on education, but it is in the form of small grants for a wide variety of individual programs with no real strategic focus.

The benefits of basic education are well documented, and will be addressed, I am sure, by all of our witnesses today. I would like to emphasize, however, a few simple realities.

Education fosters democracy, tolerance and peace by giving children the tools to think critically and to be aware of the values of other cultures. Educating young girls leads to women having fewer and healthier children and better prenatal care. Education is the key goal in preventing HIV infection.

Education prevents abusive child labor, trafficking in children and conscription as child soldiers.

Achieving high basic education rates leads to economic growth, and specifically to countries graduating from dependence on U.S. assistance programs.

These are just a few examples of the potential effects of universal basic education, and I am confident our witnesses will elaborate on others.

I remain concerned that the goals set out by the global community to achieve education for all by 2015 will not be met, unless we act now to mobilize the resources necessary and bring into focus an emphasis on education that will amplify the effects of our aid dollars.

USAID's emphasis on education has gradually eroded since the 1970s. There are many reasons for this, but my current concern is that despite the recent congressionally mandated increases in basic education, AID's professional capacity to program these dollars has effectively diminished.

In addition, there is still no strategic focus on education in the agency, and no commitment to deal with the full spectrum of education problems in any country over the long term.

Many have looked to the promise of billions from the Millennium Challenge Account as the answer for education, but without further direction from Congress there is no guarantee that any of those billions will go for education.

The U.N. has set an ambitious goal of devoting \$5.6 billion a year to education by 2006. The United States portion of that would be \$1 billion, and is achievable given the recent increases in foreign aid dollars.

It will not be achieved, however, unless we act to raise consciousness, and mandate that a substantial redirection of our assistance takes place.

In that context, I welcome the statements of our witnesses today. I am certain they will all agree on the points I have made in my statement. It is my hope that we can spend our time together today discussing constructive ways to achieve the goals of education for all, and I thank you and I thank the chairman for your important leadership.

Mr. Kolbe. Thank you very much, Ms. Lowey.

I would like to take the statements of the three witnesses. As always, of course, the full statements will be placed in the record.

It would leave us more time for dialogue and discussion if you can summarize your statements and then we will get to the questions. I think we will just go, unless there is a desire on the part of the witness team out there, in the order that I have them on my sheet here, beginning with Gene Sperling, then Steve Moseley, and then Cream Wright, if that is all right?

#### Mr. Sperlings Opening Statement

Mr. Sperling. Thank you, Mr. Chairman, and the entire committee for your commitment to this issue, both in holding these hearings and, more importantly, in the increases for this important issue that you have pushed through since 9/11.

I am not known for style, but I do want to say that I am actually wearing a few different hats here. Besides being

director of the Center for Universal Education, I also serve as coordinator for the Global Campaign for Education, and as the co-chairman with Tom Kean of the Advisory Board for the Basic Education Coalition, which has been an enormously effective organization, thanks very much due to the excellent leadership of George Ingram, who is here today.

I am also honored to be here with Cream Wright and Steve Moseley. Steve is one of the inspirations for me going into this issue.

Mr. Chairman, education is the silent crisis of the developing world.

There is never a single moment where cameras will show people dying, contracting AIDS, starving, or living in poverty because their children were not going to school that year. But make no mistake about it, people do die, they do starve, they do live in poverty, they do have worse health, and they do contract AIDS because the world allows 115 million 6- to 11-year-olds not to go to school, and 150 million more who are in school now to drop out before they even complete primary education.

More than half of girls in Africa, and in some parts 80 to 90 percent, will not get a primary education.

The evidence is overwhelming, as Ranking Member Lowey stated, that education increases income, reduces child and maternal mortality and we are seeing more, too, the connection between education and AIDS prevention.

In rural Uganda, girls who are in secondary education were seven times less likely to have AIDS. I know you have been through debates on abstinence: in Kenya, a girl who is at 17 years old who is still in school is three times more likely to be abstinent and still a virgin.

You could have no more successful policy than to get all girls in school the top social vaccine for AIDS.

While our country was riveted by the sight of the Taliban banning girls from going to school, it is worth noting that the main obstacles to children going to school are neither legal nor violent threats.

It is the obstacle of poverty, overwhelmingly, and it is parents in countries that do not have free and mandatory education deciding that they cannot afford to send their child to school because of the direct cost, the opportunity costs of them not working or helping around the house, fear of their girls being abused on long walks, or cultural norms that suggest that educating a girl will only benefit the family she marries into. This is a classic public good with significant under-investment.

The good news is that this is a disease with a known cure. This is not one of the issues in the world like Mideast peace in which nobody knows quite what the right answer is.

We know what the cures are. When countries take ownership and have plans that make parents feel that it is in their interest to send their children to school, it works in almost all cultures in all countries.

Free mandatory education has led to a dramatic in-flow of children going to school in Uganda, in Tanzania, in Kenya; Stipend programs in the Muslim world and other places that encourage parents to send their girls to school and to make

sure they attend have worked and worked effectively; having schools nearby with flexible schedules--all of these, together with trained teachers, have been shown over and over again to be successful.

So we know that there is a dramatic problem. We know what works. And the question we have to ask is, what can we as a people do to best address this?

I believe that we need a new compact, a global compact on universal education. There has been a new consensus on the form of effective aid, and you can see it from debt relief to President Bush's Millennium Challenge Account.

It really has three principles. One, that poor nations have to take national ownership and make political commitment first and foremost. Second, that that must include good governance and strong efforts on accountability and monitoring and corruption prevention. And third, is that the richer countries of the world will put forward a strong commitment to help those countries who are willing to help their children.

There is no place where a global compact is more important than education. There has never been a strong global compact in education. In 1990, the world committed to universal education, but there was never a structure that said to a poor country that if you take the difficult political steps to get all your children in school, if you marshal your resources to do the right thing, that there is a clear commitment by the donor countries to help you.

Right now is a critical moment in poor countries as to whether they will believe that there really is a new compact or only another false promise.

I have had the opportunity to go to the African Education Ministers Conference in Dakar and Tanzania in the last year. And I can tell you, the skepticism among ministers of education is enormous. We need to show that there is a clear commitment.

Let me tell you a couple of things I think are important. One is to have strong contingent funding. The debate about whether money is the answer or not the answer is a false choice. Clearly, the resources are woefully inadequate for basic education. But it is also clear that throwing money into countries where there is rampant corruption and no means to monitor performance is also unproductive.

Contingent funding means that we would, together with the rest of the world, say, ``Here is a significant fund that is available to help countries who have strong national education plans.'' If no countries come forward, the spigot never gets turned on, and no American taxpayer money is spent.

But the importance of contingent funding is it says clearly to those countries: if you take these difficult and strong efforts, the world will reward you.

I think for this to happen there needs to be a clear global initiative, which the United States should play a strong role in.

I believe everything this committee and others have done to increase basic education funding, the Millennium Challenge Account, the AIDS initiatives, are all good. But listen to a minister of education in a poor country; it is like navigating through a myriad of bilateral programs in the different countries with different standards.

We should try to take our efforts and pool them together. We can still control our own resources, but let's try to do that by sending a clear commitment to the developing world that if they take the right steps, we will support them.

And let's create a positive competition. Let's have 10 countries being funded and another 10 or another 10 after that competing to know what they have to do to be next in line. That is the kind of positive competition that took place in debt relief. That is the kind of positive competition we should be creating right now.

If not, Mr. Chairman, we run the risk that the whole is less than the sum of the parts, that all of the efforts we are doing individually do not have the big bang and the big incentives that we want.

I believe when you look at the \$5.6 billion per year that is estimated for external resource needs, it is probably on the low side. It is about just getting kids into primary education. All of the research on education preventing AIDS shows the benefit of getting children, particularly girls, into secondary school.

We have not even begun to cost this amount. For the U.S. to do its share, 20 or 25 percent, it could be anywhere from \$1 billion to \$3 billion per year. But if we do that as contingent funding, it does not necessarily mean there will be new outlays in the deficit. It means that that money would only be available, pooled with other developed countries' and G-8 countries' money to go out when countries come forward. I believe that type of global compact is what we truly need to work toward.

I realize that much of this is not within the ability of this committee, which has given a certain amount of funds. But I do believe if you want to make major progress, we have to work toward a system of incentivising countries to come forward with their own national education plans.

I will just say in closing, Mr. Chairman, that when Americans saw the Taliban banning girls in Afghanistan from going to school, they did not need any of the evidence that we bring up here, they did not need any of the statistics or any of the studies. Americans instinctively believe in the value of education. When they saw those little girls, they instinctively believed that is the right of all God's children to have a chance to learn and grow.

I believe this is an area where, at the moment, our financial commitment does not match the heart and the passion of the American people, who, I believe, if they saw more of the little girls and little boys who go without the chance to go to school, would gladly open their hearts and their wallets to support those countries if they saw a strong national commitment and strong assurances that the money would be used for those children and not wasted. Thank you.

[The statement of Mr. Sperling follows:]

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Mr. Kolbe. Thank you very much, Mr. Sperling, for that very eloquent statement.

Mr. Moseley.

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Wednesday, May 14, 2003.

ACADEMY FOR EDUCATIONAL DEVELOPMENT AND BASIC EDUCATION COALITION

WITNESS

STEPHEN F. MOSELEY, PRESIDENT

Mr. Moseley's Opening Statement

Mr. Moseley. Thank you very much, Mr. Chairman, Congresswoman Lowey, and other members of the committee. Thank you very much for holding this hearing.

I serve as the president of the Academy for Educational Development, which is a non-profit organization that works on these issues and problems around the world, as well as in the states and communities of this country.

I am also here today as the voluntary chairman of the Basic Education Coalition, a group of 18 organizations, some of which are household words like CARE, Save the Children, World Vision, and Bread for the World, that works on a whole range of development issues.

They are not only organizations that focus on education, and that is the point. They have come together because of their deep belief that education is the foundation, the bedrock around which and in which we must make greater investments in order to have the chance to make the improvements in economic development, health, HIV/AIDS, environmental change, family planning, food, nutrition, and certainly democracy-building, as Ms. Lowey has pointed out.

I am glad Gene noted that he also serves as the co-chair of the Coalition advisory group, both in his formal role at the Brookings Institute and now currently. Since he left the White House, he has been an indefatigable volunteer and a regular visitor to Africa. He is joined on the advisory board by Dr. Tom Kean, who is currently serving as President Bush's special adviser in co-chairing the investigation into terrorism for the 9/11 Commission. I am submitting a copy of his testimony for the record.

He served previously as representative to the Jomtien Conference in 1990, representing former President Bush, as Gene represented President Clinton at the Dakar Conference.

We have been very fortunate to have both presidential representatives from the two key conferences on Education For All join us in this coalition.

It is important that you are holding this hearing, I think, at this particular point in time. Several statistics have been already noted, but I wanted to add that it is not just 115 million children who are out of school, but there are 150 million who drop out of school, as well. They may have entered school and lasted through the first two or three grades, but never completed primary education, never completed a sixth- or seventh-grade education.

And there are at least 200 million children who are in very



poor learning environments; that is, they may be in school but they are not really receiving a full and adequate quality education.

Despite these terrible statistics and concerns, I have to say that I think the goals of achieving education for all are within our grasp within the 15 years ahead.

I am really optimistic, simply because the presidents of most of the countries who were represented in the EFA conferences, including former President Bush, and more recently, the leaders of all the development agencies, including the president of the World Bank, the director of UNICEF, secretary-general of the U.N., the leaders of the other G-8 countries as they have demonstrated in the last three G-8 meetings, and many, many members of Congress now fully agree that education is, indeed, the cornerstone for making investments and for achieving many of our other development objectives.

The U.S. has also recognized the importance of education in our foreign policy and security objectives. I was very pleased to see that this committee made major commitments in education in the process of considering what to do for the reconstruction of Afghanistan, as well as made commitments to Pakistan and, most recently, to Iraq.

Those are controversial matters, and I am sure there are lots of opportunities to debate how best to bring them about. But the very fact that they are high on the agenda and part of a major investment demonstrates that commitment to education.

But I have to say that, relative to the whole world picture, as Ms. Lowey pointed out, the reality is that the funding levels do not come anywhere near to matching the rhetoric of these leaders, both in Congress and in the administrations and the leadership around the world.

The actual level of bilateral foreign aid and multilateral assistance hovers around only 5 percent of donor budgets, and often is only 2 to 3 percent in many cases.

Successful development hinges on people who can read, write, do basic math, and have basic problem-solving skills. We cannot build successful development programs, as you know, without a strong foundation in education.

I am here today, though, to suggest that the U.S. can lead a bold initiative that will cause others to join us to provide the necessary resources needed to reach the EFA goals.

We believe the U.S. should commit \$2 to \$3 for every one of the more than 400 million children who are either out of school, drop out before they complete a primary education, or suffer from a poor education.

That investment totals \$1 billion a year. One billion dollars a year would make all the difference in those children's lives and enable developing countries to move toward economic growth.

We believe that other countries would follow our lead. We have seen that when the U.S. announces significant new investments, as it did at the Monterrey Conference, other donors respond accordingly.

The level of funding would represent a U.S. fair share of the estimated \$6 to \$8 billion needed. Gene alluded to this. It may be a low estimate, but it is an important estimate

carefully calculated by the World Bank, confirmed by others, and reviewed by quite a number of policy leaders. I would like to share with you three things, though, in talking about support for this.

First, assistance for basic education does work. There is a lot of evidence, and I want to point to some of it.

Second, if we do not take strong action today, that is, in the year 2003, it is very clear that we will not be able to meet our promises for reaching the goal of universal primary education and the related EFA goals by the year 2015. We must start this year. We must continue what has gone before.

And third, we must devote a significant part of the new resources to sub-Saharan Africa and other countries where there is the greatest need.

First, let me talk about the progress so far. Literacy rates have nearly doubled since 1970. Primary school enrollment has tripled since the 1950s and 1960s. Over the last 30 years, we have seen many countries that have been able to reform their education systems with help from the U.S. and others, but significantly from the United States.

Today, these countries are some of the best examples of developing countries that have graduated from aid. They include South Korea, Botswana, Chile, and Costa Rica, among others. And not surprisingly, you can see that the countries that succeed in having quality education and access, including for girls, are also the countries that succeed economically.

Today, we see a number of other countries that have made remarkable progress in getting more kids into school and improving their quality of education. They have a lot more to do, I recognize that. But they are clearly on the right track.

In Latin America, the list includes Nicaragua, El Salvador, Honduras, Guatemala, Bolivia, Ecuador, and Brazil.

In Africa, this includes significant progress in Ghana, Uganda, South Africa, Namibia, and Ethiopia, among others.

In Asia, progress is being made in Indonesia, the Philippines, Bangladesh, and some parts of Pakistan and India.

In the Middle East and North Africa, Egypt, Morocco, Jordan, and Tunisia have all made significant strides, I would say, in achieving movement toward universal basic education and the Education for All goals.

And in these countries, the U.S. has played a key role over the past 15 to 25 years. I will just cite very briefly three examples. I had a long list of examples, which is included in my written testimony, but I would like to focus on just three.

In Ghana, where I was last year, USAID has focused on introducing new teaching methods promoting sustained community involvement in children's education. The research there shows a dramatic increase in children continuing through the primary education grades--and going into secondary education as well--with impressive gains in achievement test scores in the participating schools.

USAID started out by supporting this on a pilot basis. The program is now in several hundred schools, in each of the districts in Ghana. And now the new president, elected two years ago, and the minister of education have committed to mainstreaming this model and making it the national model for all schools. It went from pilot to scale with support of USAID.

In Nicaragua, we have helped to introduce a new school management approach, which engages parents in the actual management of schools. It builds on the traditional PTA model but goes beyond it to actually have management committees that help make the schools that much more effective. And by their involvement, it encourages their children to stay in school, and parents are supportive of the school, drawing on resources from the community as well as from national investments.

Completion rates in Nicaragua are up by 20 percent as a result of this kind of investment. It is my expectation the Nicaraguan government will plan to expand this model much as Ghana has done in terms of expanding it from pilot to scale.

In Ethiopia, where I had the pleasure of visiting last year, there is a really extraordinary example of what happens when you invest in basic education reform. There in the north and the south, the two largest regions of the country, and with American help, actual enrollment has increased from 20 percent to 55 percent over the past six-and-a-half to seven years. In the northern region, Tigray, school participation rates actually rose from 12 percent to 75 percent, with 72 percent participation rates for girls.

This is not done simply. It is not just about money. It was the investment in the whole range of activities that make it possible to improve the quality of education in Ethiopia. It involved the training of thousands of teachers and the mobilization of leadership in communities to participate in managing the schools.

Only a few years ago, none of you, I suspect, would have expected it could be possible to invest in Ethiopia, which many considered beyond help in terms of massive formal education change. This is an outstanding example, which I think can give us a lot of confidence about future investments in Africa.

But we must focus consistently on quality, not just access to education. Just having children attend school is not enough. It is through quality education where children have the opportunity to actually learn while they are in school. Therefore, assistance needs to include a combination of resources, outside ideas, and expertise.

We can draw those resources from neighboring countries or from non-governmental organizations. The business sector has many ideas that can engage, and increasingly we are finding that, by encouragement and advocacy, we are engaging them in the education sector. And, of course, there are academics.

The best programs, I would argue, promote comprehensive reform targeting multiple components of the education system concurrently with a particular emphasis on making sure that the policy setting is right in the first place.

Getting parents and communities involved is key, as we have mentioned, just as it is in this country. Wherever we work, community members, teachers, and parents are willing to make tremendous sacrifices to make sure their children get a decent education.

In Ethiopia, which I mentioned earlier, teachers are so eager to improve their practices, they will walk four to six hours for weekend training without any additional compensation. They hardly miss a session when they are invited to attend.

Students walk long distances, and you can see children

walking at 4 o'clock, 5 o'clock in the morning to get to school by 8 o'clock. They are so eager, and their parents are willing and support them to attend school.

Parents can build schools. They often provide housing for the teachers. They cook school meals. Even the poorest families contribute to schools.

At the same time, we must be very careful not to let school fees and other costs get in the way of the ability of children to attend school. Sometimes many fees are unnecessary. But we do not want to discourage the kind of parental and community commitment that makes it possible to partner with government and business to accomplish schooling.

Despite this success, though, we cannot really continue to operate as we have been operating. If we do, that will mean that even by 2050, 47 years from now, we will still only have 60 percent of the kids in Africa accomplishing a primary education.

The same, more or less, will be true in the Middle East and South Asia. Even continuing current straight line investments, we would not be able to fully reach the EFA goals until 2020 or 2030 in the Middle East.

The need, therefore, is to significantly expand our support for basic education and make sure our aid programs reach those countries most in need. What we are calling for is about \$1 billion. This is a lot of money and is different from the level of funding today, but, thanks to your committee, current funding is twice as much as it was two years ago.

Funding has been extraordinarily low, as Ms. Lowey pointed out, compared to the 1960s and 1970s, when education was recognized as a hallmark for aid investment. It has waned consistently over the years until very recently, due to the change by this committee.

If you think about the potential of the MCA, it is focused on relatively few countries. We are not proposing that one earmark the MCA, but rather we do hope that the Congress will encourage countries to see education as a prime vehicle for MCA investment.

We think there is the opportunity for 10 to 20 percent of MCA funds to be invested in education because we believe that countries desire it and their own plans will call for it. MCA will help us to achieve a level of funding that will tackle education issues in those countries.

But, frankly, the need is to make sure that our basic foreign aid programs have substantial increases over the next several years. Coupled with those other resources, this will allow us to achieve the \$1 billion level, the U.S. share that we think is fair to achieve the EFA goals by the timetable that we have promised.

People often ask me, can the poorest countries we are talking about actually absorb this kind of investment?

I think if you look very carefully at Ethiopia, Ghana, Nicaragua, and many other countries that have preceded them, you will find that in education, countries can make these investments soundly. And when funds are invested in quality improvement together with access, they are invested in ways that you can track the dollars. You can see the return on investment, and it is measurable.

This sector is a place where you can measure the change and see the change. Indeed, the investment that you make, that Americans make in foreign aid for education, leverages 95 to 98 cents for every dollar that is invested because country budgets for education are significant.

But they often lack the stimulus and the encouragement that foreign aid provides to bring about innovation and turn those investments to focus on the improvement of quality as well as access.

We need to make these investments in some very specific areas, such as teacher training, specifically focused on child-centered teaching methods; materials development; and learning technologies.

We need to help communities realize and mobilize their power to build and maintain schools. We need to create greater accountability, so the community can see whether the money is actually flowing to their communities.

Finally, we are going to need to invest in building leadership. We are going to need to ensure that the education programs are of sufficient size, duration and scope so they actually go to national scale. And we need to ensure that an added investment is now made in HIV/AIDS prevention.

We need to ensure that USAID programs make a special effort to reach countries that are most in need and make sure that USAID has the staff, the resources, and the technical capacity to design the kinds of programs described here.

I really do believe, and our coalition believes, that America's strong leadership on education will be the investment that makes the difference in these lives and, frankly, in all of our lives, for a more peaceful, healthy, tolerant world. It really is the best investment the U.S. can make.

Thank you, Mr. Chairman.

[The statement of Stephen F. Moseley follows:]

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Mr. Kolbe. Thank you very much, Mr. Moseley.

We will go to Mr. Wright's statement and then hopefully some questions.

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Wednesday, May 14, 2003.

UNICEF

WITNESS

CREAM WRIGHT, CHIEF, EDUCATION DIVISION

Mr. Wright's Opening Statement

Mr. Wright. Thank you, Mr. Chairman. It is a pleasure to appear before the subcommittee today on behalf of UNICEF. We are trying to help children around the world who are seeking education. I congratulate you and Ms. Lowey and members of the committee for conducting a separate hearing on education and

thus highlighting the critical importance that education plays in preventing poverty.

Closing the gap, especially for girls, between children in school and those who have no access to education is a primary goal of UNICEF. In testifying before your committee today as the head of education for UNICEF worldwide, I believe I symbolize the transforming power of education, having had all my own initial education up to first university degree in Sierra Leone in West Africa before venturing out to the world.

For us in UNICEF these are exciting times, they are also challenging times.

Exciting, because in recent years the pivotal role of education in nation building and human development has been strongly endorsed through a number of important agreements reached and commitments made by the international community.

These are also challenging times, because there is so much at stake. First, the role of education as a source of hope is at stake if we fail to deliver on these promises.

Secondly, the prospects for orderly pursuit of development in the world is at stake if we fail to deliver on these promises.

Thirdly, there are real lives at stake, in terms of the estimated well over 100 million children who do not have any access to basic education, and may be destined to swell the ranks of the almost 900 million adults who are illiterate in this world today.

These disadvantaged populations and their communities offer fertile breeding ground for spreading all forms of indoctrination, hatred and intolerance, as we have witnessed in recent times.

Fourthly, the credibility of the whole international community is at stake. There is a moral imperative to keep the promises made in global commitments and declarations if people are to believe that we have a world order that works.

The final issue at stake, and of great importance today, is that of allowing some regions of the world to become permanent development ghettos, with persistent lack of progress in education and other development indicators.

The Global Education for All Monitoring Report estimates that sub-Saharan Africa and southern and West Asia account for over 70 percent of the more than 100 million children out of school.

These regions together have over three-quarters of all girls out of school in the world today. Other regions with such high numbers of children out of school are the Middle East and North Africa.

At a time when steady progress is being achieved in many countries, we need to put special efforts into boosting education in these regions to avoid further widening of the development gulf that now exists between countries and regions of the world.

So how are we responding?

Given what is at stake and the ambitious goals set for education as part of development, UNICEF and many other bilateral agencies have responded with enhanced partnerships, increased flow of resources, and strategic deployment of knowledge and experience gained over the years in order to

increase and accelerate progress toward achieving these goals.

The UNICEF strategy for accelerating progress in girls' education is based on lessons learned over the years in dealing with gender and education.

There is a rich vein of work in this area, including pioneering programs and projects by USAID, such as GABLE. SAGE, work by the World Bank and UNICEF's own African Girls' Education Initiative in 34 countries, using major support provided by the government of Norway.

This strategy draws on what has worked in the past for getting girls to school and making sure they complete and achieve basic competences to make them productive citizens.

Under this plan, UNICEF is working with countries and partner agencies to help increase access and completion rates, as well as to improve the quality of education and learning achievement for all children.

This takes place with a special emphasis on girls as a disadvantaged group in most countries. Reasonable progress is being made, so we should not pretend that it is all doom and gloom.

Reasonable progress is being made with providing quality basic education for a steadily increasing number of children, and the gap between girls and boys is indeed closing in most countries.

However, the Global Monitoring Report on Education For All indicates that the world is not on track for the goal of achieving quality basic education for all by 2015.

It is also clear that for many countries, the goal of eliminating gender disparities in primary and secondary education by 2005 is rapidly slipping out of reach.

The risk, then, is that if we fail with the gender parity goal, which is the first before June 2005, we lose credibility and the longer-term goals set for 2015 would be further jeopardized.

UNICEF has, therefore, taken special steps to meet this challenge by designing its acceleration strategy to give special attention to helping 25 of the most at-risk countries achieve the goal of eliminating gender disparity by 2005.

Mr. Chairman, because UNICEF has a wide range of competences across several disciplines, and posts in over 160 countries in every region of the world, it is uniquely capable of accompanying countries as they strive to achieve quality basic education for all.

The acceleration strategy capitalizes on this, and promotes programs that are inter-disciplinary in nature, that are strong in partnership and effective in addressing problems that affect the education of all children in the world.

Through such programs, UNICEF has contributed to increasing enrollment for girls in countries like Comoros, Morocco, Ethiopia, Cambodia, Pakistan, Benin, Burkina Faso, Egypt and Southern Sudan.

These and many other countries registered increased enrollment and a closing gender gap with strong support from UNICEF and other partners.

In special cases, such as in Afghanistan, spectacular success was achieved in enrollment under very difficult conditions of national reconstruction after the war.

UNICEF played a key leadership role in this process of education for reconstruction.

Strategies using UNICEF programs include provision of non-formal education for those out of school, inputs into policymaking, advocating decision-makers, massive back-to-school campaigns in emergency situations, mobilization of local communities, training of female teachers, improved school improvement, school environment, use of incentive programs and scholarship, provision of basic school supplies, targeting excluded groups and strengthening partnerships at all levels.

Through these kinds of efforts, we are now providing packaged solutions, which make learning successful in all conditions. And I invite you to share some of our experiences that in the poorest communities in Pakistan, when you look at the photograph and you can see the joy of learning, even in poor conditions where teachers have been trained, where pupils have been divided into small groups and materials are provided.

Just as in richer communities in Namibia, children have an abundance of resources and share and learn the business of tolerance as part of education.

And, finally, in India transformation from child labor on to education; picture, incidentally, provided by Mr. Peel for your information.

Mr. Chairman, members of the committee, an important lesson from the UNICEF experience is that successful intervention in-- education requires attention to inputs from various other sectors to make it work. Water and sanitation, for instance, can be essential for preventing drop-out, especially for older girls.

Health and nutrition can help with attention span and learning. Life skills are critical for empowering girls to deal with HIV-AIDS and other threats.

Child protection efforts are vital for safety and security as well as for combating child exploitation. Early child interventions are critical for ensuring that children have the best possible start in life and they are ready for school at the right age.

Interventions to improve the quality of education include classrooms that promote effective learning in safe gender-sensitive environments.

UNICEF has helped some countries like Madagascar, Malawi, Mozambique, South Africa, India, Uganda, Zambia and Zimbabwe to develop standards for this type of child-friendly classroom in the school system.

As part of the drive to improve quality, UNICEF promoted school sanitation and hygiene, including construction of separate toilet facilities for girls in some 47 countries.

UNICEF has also engaged in policy dialogue with governments in an effort to influence major investment decisions in favor of girls' education, as a means of leveraging quality basic education for all children.

What are some of the challenges and barriers that remain?

We continue to work with governments and partners, including NGOs and the private sector, to address the main barriers and challenges that need to be overcome for success in 2005, as well as 2015.

One of the most important of these challenges is that of



partnership itself. No program to expand good quality education has yet succeeded without strong partnerships at all levels.

Everyone from governments and local authorities to school principals and teachers, parents and pupils as well as NGOs, international communities and bilaterals, need to work together for success. Taking successful innovations to scale and mainstreaming them in an education system remains one of the most daunting tasks that partners need to learn how to do well together.

A second major challenge is the need to address quality issues along side efforts to expand access to education. How children learn, what they learn are just as important and even more critical than the business of getting them into schools.

Through the curriculum and textbooks, as well as through trained teachers, we need to ensure that education serves, not only to anchor children to the norms and values of their own society, but also to help them soar to a world beyond that embraces elements of our common humanity.

Experience has taught us that the world is not a steady-state entity. So we need to plan for emergencies and other eventualities. Societies can be volatile and hard-won gains can be lost through civil violence and natural disasters.

UNICEF has proved to be a leading agency when it comes to dealing with education in emergencies. This remains a key challenge in the current world climate.

Despite much progress, many of the old challenges still haunt our efforts to promote quality education for all children, especially girls. In many countries, girls still face persistent patterns of discrimination and disadvantage. Among the poor in particular, girls' education is affected by both the direct cost of schooling, as well as the opportunity costs to families for whom a daughter's attendance at school represents a loss of domestic labor or household income.

Also, many girls are increasingly caught up in forms of exploitation, such as child labor, early marriage, sexual harassment and abuse, trafficking and other harmful practices.

Much work needs to be done in advocacy with community leaders and parents as well as with legal authorities to address these issues.

What needs to be done now, we know a lot of what works. We have a lot of the answers. We now need to build on these known successes and promising signs.

External support of the right type and in sufficient measure can help ensure that the goals of quality basic education for all are achieved in the time frame set.

Our first litmus test, however, is to get to the goal of eliminating gender disparity in primary and secondary education by 2005. In practical terms, external partners like the United States, should support developing countries and multilateral agencies like UNICEF by helping to finance the scaling up of successful innovations as well as by providing funds for the national reform processes that will result in self-sustaining basic education assistance.

Mr. Chairman, Ms. Lowey, committee members, I submit that this type of investment, especially in girls education, is essential for human development, for poverty reduction and economic growth, for promoting peace and cultural development,

for empowerment of women, reduction of child mortality and for much else that resonates with the values and principles of this great nation.

Thank you very much.

[The statement of Mr. Wright follows:]

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Mr. Kolbe. Thank you very much, Mr. Wright.

And I want to thank all of you for your very good statements, which I think help us to gain a better understanding of this issue.

I have been advised that we expect to have votes in about 30 minutes. We are going to try to make as much time here for questions as possible because we will have to conclude at that point.

I will begin with a couple of quick questions before I turn it over to Ms. Lowey.

Mr. Sperling, you talked a lot about nations taking ownership of their problems. You said that includes good governance and called for a global compact on education. I would say use the word contract rather than compact because I believe that there has to be contractual obligations between the two sides. And you talked about creating a competition. As I listened to you describe it, it sounded very much like you were talking about the Millennium Challenge account with education added.

Would that be a fair assessment of what you are talking about? It seems you were saying let's reward those countries that are doing good governance--that are doing the right kinds of things. Let's make sure we do it in those places.

Mr. Sperling. Yes.

I mean, I think one of the points I wanted to make is I really think, when you look at the model that we saw with debt relief where countries had to meet certain standards, only when they met certain standards did they get the relief.

If you look at the Dakar framework, it talks about countries having to have credible plans and getting support in that sense. So I believe that there is, when you look at these things, in a sense a new consensus on what a contract ought to be.

But here is what I would say. In terms of the Millennium Challenge Account, I support the Millennium Challenge Account and its focus on getting governments to make this strong effort across the board. But when you talk to a minister of education, when you talk to education reformers in a lot of these countries, they see the Millennium Challenge Account as helping only a handful of countries. For many countries, they are too far away.

So yes, I think if we should have, whether it was the second tier of the Millennium Challenge Account or a separate education initiative, to inspire countries to come forward with that national education plan.

The other thing I would say, Chairman Kolbe, is that--again, when you talk to the minister of education, it is a little bit like they are dialing for dollars, shopping, you know: which aid program do they go to? And you look now, with

us, I think for all the good stuff we are doing with AIDS money, Challenge Account, AID, it becomes more confusing.

I think that if we were trying to harmonize our efforts with other countries and have that clear compact, that clear incentive, you would do two things. You would be empowering the willing, the countries like Tanzania and Kenya that are going forward, telling them very precisely, what are the conditions for their getting funds.

But you would also be empowering the education minister in a country that does not have the support of his head of state or finance minister to go and say, you know, look what happened. This country is already getting funding, because they put forward a good plan. If we marshalled enough of our resources, if we did a, b, or c, we could get funding as well. That is the incentive system.

And I just do not think that it happens when we just wait until countries do things and then we say, okay, now we will fund them. I think if you had a clear commitment that there are these funds there for countries who do the right thing, then you do get that kind of more positive competition.

So I guess I would say, I would like to see a little stronger effort to coordinate through this fast-track initiative, through other efforts to try to get a more harmonized clear global initiative.

But I do agree that it is largely the structure and vision of the Millennium Challenge Account applied to education. I would like to see that applied more broadly so that we had a unified education initiative. I think that would be wonderful progress for our country to take a leadership role in that.

Mr. Kolbe. Thank you.

I appreciate your answer. Hopefully, we will have some other discussion of that, particularly as it relates to the Millennium Challenge Account, which, by the way, could easily include education programs.

You just spoke about the minister of education in countries and the ministry of education. For all of you, maybe--I will begin with Mr. Wright here--who is best poised to deliver on these services of education?

Is it international organizations like UNICEF? Is it bilateral programs? And within the country who is best poised to accept it?

Would you all say in all cases it should be government-to-government, through the Department or the Ministry of Education, or are there places where education ministries simply do not exist or are so corrupt that we have to find ways to go around them, to regional means or to NGOs to deliver these kinds of services?

Mr. Wright. There is a bit of truth in each of those points you have made there. There are places where you would be ill-advised to simply put money into the Ministry of Education, or for that matter into the government coffers.

On the other hand, they are places where, in fact, many agencies are now doing what is called budget support, that is to say agree to a plan with a government and simply put money into their budget instead of finding specific projects.

That reflects a degree of trust in the credibility of the government to do this.

I think without a doubt governments need to take leadership in this, otherwise it is not sustainable, if people keep doing it for governments it is not sustainable.

However, governments also need to be accompanied, that is the phrase we use in UNICEF, i.e., working with governments instead of providing money for them for a plan and then going five years or 10 years and evaluate and say, ``All the money has been wasted, they have done all the wrong things.''

There are agencies, NGOs, from small NGOs to large organizations like UNICEF, to agencies like the World Bank, that can work with countries on a day-to-day basis to make sure costly mistakes are avoided, to make sure that good examples are copied and multiplied, to make sure that efficiencies are built into the system and that they get the best value for the money that is invested in them.

So the answer is both with yes, sometimes directly to the country, but also almost by way of insurance, paying an insurance premium, and showing that those who can accompany the government are also funded adequately to work with governments to make sure that in 10-years time you do not find it has been a wasted investment, that you ensure now that there are those who can work with governments to make it happen.

Mr. Kolbe. Well, my time is up, but I would like to ask the other two to comment briefly before I go to Ms. Lowey.

Mr. Moseley. Thank you very much. Certainly, in many countries, I think we have to be investing in government ministries of education. The chance of going to scale and having sustainable, long-term delivery of education with quality depends upon improving the capacity of ministries of education and working with them.

They may not all be in great shape at the beginning, but I think we have to invest in them and make them better. And we have seen good examples of that happening.

In countries like Mali, where we were last year, the government does not have the wherewithal to deliver education on the national scale through a ministry of education. Creating and encouraging community schools with participation by NGOs is essential in order to reach down to the community level. That combination is essential.

The other thing I was trying to stress in my testimony is that one of the areas in which the U.S. seems to be particularly capable is in delivering and helping make sustainable change on a qualitative basis by focusing on the quality of education.

USAID, with relatively small sums compared to those of the World Bank, has been able to target that money in ways that entirely focus on quality change and improved access. The American approach is to ensure that teachers improved; that is what is needed to effect change in the classroom. If you invest there, you can see where the money goes and you can see that it is accountable.

Whether it is in a government system or whether, as in Mali, it is within a classroom system, it is very important that we place our dollars in a way that can leverage additional dollars and make a difference for a lot more children in terms of the quality.

What are they learning? What actually happens in the

classroom? The main concerns are: do they learn, what do they learn, and how do they learn?

I think we are all in agreement on those issues. But you do need to target dollars to ensure that it is not just a question of which bureaucracy, but how that bureaucracy then channels the money, then, you can make sure that when you appropriate funds they go to either an accountable ministry or if not accountable to a set of combined NGO community capacities that can utilize that money effectively.

That is the difference, I would argue. Thank you.

Mr. Kolbe. Thank you. Gene, do you want to add something to that quickly?

Mr. Sperling. At the level of where the assistance comes from, I think that we do not need, we probably do not need to have one large fund. But what I think people have been trying to do with the World Bank organizing it in this fast-track initiative, and one could take it on different levels, is to say to all of these countries, ``If you come up with a plan, we want to make sure you are funded.''

So you could have a structure where you make sure, you know, perhaps, the United States says, ``We are going to take this country, because it is qualified for our Millennium Challenge Account,' ' maybe someone else takes another country. But I would look to the G-8, like we saw in debt relief.

I think when the G-8 takes leadership, that tends to move the world, that tends to focus the multilateral institutions, and it makes the developing countries think: ``It is for real.' ' There is a real, significant incentive, encouragement.

Again, when I was at the African Ministers of Education Conference, I found myself trying to explain the Millennium Challenge Account. What happens for so many people is they think, ``It is only an incentive for countries that are at a certain level.''

We could have something that provided that same level of encouragement, let's say for Ethiopia or Kenya, or a country that can make tremendous progress on education but may be a long ways away, hold them to rigorous standards on accountability on that education side, but have the G-8 coordinate that kind of incentive structure, as opposed to the government ministry of education.

Obviously, nothing substitutes for a national government committing its resources, its political capital and its wealth. Everything else is piecemeal compared to that. That should be, I think, our fundamental focus.

I would say the following: Where a country you cannot trust just giving them the money, and there are many countries that would fit there, I do think one could have, I would say, kind of kind of an innovation model, where you would say, here is a country where the level of corruption or the level of budget transparency, just does not justify us giving them the money, but because we care about the children there, we are going to fund NGOs that can be accountable to at least get that country into a position so that hopefully when a better government comes along, they have something to build on.

And I want to point out that the BRAC program of Bangladesh operated like that. NGOs created a program where they gave stipends to parents and girls who went to school. When a more

enlightened government came in, that structure created a base from which the more enlightened government was able to expand that and make that a national program.

Mr. Kolbe. Thank you.

Obviously, the answer to this last question far exceeded my time. The remaining time will be with Ms. Lowey and Mr. Lewis.

Mrs. Lowey. Thank you.

I think our chairman is very gracious. And, obviously, we all care very much about this issue. A couple of points, we know that the fiscal year 2004 budget increases foreign aid by some \$2.6 billion, or 15 percent over last year, but reduces funding for basic education from \$250 million to \$212 million.

And while the promise of additional funds for education may be implied in the MCA initiative, we know there is no guarantee that countries that qualify for the MCA will spend the funds on education. And, in many cases, the qualified countries, as Mr. Sperling pointed out, are the ones that are in dire need of education resources.

So I appreciate your comments, Mr. Sperling.

A couple of points in following up. Mr. Moseley talked about resources at AID focused on education.

How would you recommend that Congress mandate resources be set aside from the MCA for education?

Would you agree that there should be a second tier? There was some discussion about that for countries attempting to qualify.

Would you take resources from MCA and give them to AID to implement?

And how can AID's efforts at basic education be improved beyond simply providing more resources?

Do we need more operational resources to hire education experts?

And maybe in talking about that whole issue, you talked about very positive things that were happening at AID. From what you have seen of USAID's programs, what do you consider that agency's particular strength among these types of programs?

Could you suggest how to ensure that various donors play to their strengths?

I did not mean to have you have to take notes. But I----

Mr. Moseley. That is a wonderful list of questions, thank you.

Mrs. Lowey [continuing]. But we are just trying to be realistic.

Mr. Moseley. I will try not to take the entire time of the committee.

First of all, with respect to the MCA, I have been very pleased to see that the administration proposed and encouraged the definition of MCA to include education. It certainly does not exclude it.

I know the administration and a number of people are very concerned that MCA not be earmarked, per se, and I appreciate that. But it is very much my hope that those countries that will be eligible for MCA, whatever the final criteria are, will want to make education a priority and that education will be seen as a critical area for investment to achieve the kind of economic outcomes that they hope for.

But I have to say, frankly, that, just as Gene was implying, sometimes one has to encourage the view that education is an area worth investing in. If it is seen from the congressional or administration standpoint as an area of priority for investment, countries will see this as an area they should consider and put forward in their plans.

I do fully support the idea that there is an opportunity here for the MCA to be highly responsive to countries' own designs, plans, and recognition of what their needs are. I fully support working with them from that perspective.

But ensuring that education is on their agenda, I think, is a role Congress could clearly identify. That is different from earmarking; it is making clear that education is a priority in which we hope that investments will be made by MCA.

With respect to USAID, I know there are many criticisms, and nobody in this town would not be familiar with this subject without recognizing there are criticisms sometimes about its bureaucracies, procurement and so forth. But I must say, with respect to education, it has a pretty darned good record of making sure that its investments have the outcomes for which they were intended.

As I mentioned earlier, USAID investments have gone primarily into qualitative changes in education. And they have been done through careful planning in partnership with a country. In order to effect change with respect to teacher resources, materials, methods, and policy.

I do not think I mentioned earlier the importance of making sure that there are sound, electronic-based information systems to ensure that when you contract the money, you know where the priorities are, where the changes are coming about, and what effect they are having. AID has been very, very good at that. It has been very good at partnering on the ground, ultimately. I think a lot more attention, though, needs to focus on donor coordination.

The idea of a compact that Gene mentioned is not so much fund, as I understand it, but it is so much more. There would be a compact, or contract, if you will, among those concerned with a particular country not to duplicate or leave out that which needs to be done. In that regard, I think that AID can be a very good player.

Resources have been always been measured against whether changes were going to be sustainable by a country.

There is a lot of debate now about whether the fast-track initiative, for instance, should provide more budget support. Should you pay for teachers' salaries or should you make sure you are just paying for the innovation that triggers and leverages, if you will, a country's resources?

I think those debates need to go on, and there may be differences in particular countries. But where aid has been effective--and American aid has been very effective--is in leveraging those funds to bring innovation into the ministry.

If a ministry's budget is spending \$20 million a year or 20 percent of its national resources on education, how can that 2 to 5 percent that AID might provide trigger or leverage great change and innovation? How do you move the bureaucracy to change where the money is going, what children are served, and how it serves rural areas? How in particular do you reach

girls, who tend to be underserved by as much as one-third to one-half, as you well know.

AID has been very instrumental in focusing the education community and helping to initiate leadership. UNICEF is now chairing and providing leadership among U.N. agencies based on that. And AID has been very supportive and collaborative in making girls' education a priority.

If I were to chose a priority, it is girls' education because with that comes education for boys as well. It is a change that we would all like to see for the long term because of its relation to a country's well being.

That is an initial response to many good questions. Thank you.

Mrs. Lowey. And I will save the----

Mr. Kolbe. And I will come right back to you. I will let Mr. Lewis ask his questions.

Let me just say before I do call on Chairman Lewis that I really appreciate that Chairman Lewis chairs the subcommittee that has the largest fiscal responsibility of any subcommittee in appropriations, and yet he is one of the most dedicated members of this subcommittee. He is always here, always listening and he always asks very thoughtful questions. I want you to know how much I appreciate your participation on this subcommittee.

Chairman Lewis.

Mr. Lewis. Well, thank you very much, Mr. Chairman. With that, I do not have any questions. [Laughter.]

Thank you very much, Mr. Chairman and Ms. Lowey. This conversation is, I think, very important to all of us, especially those of us in this country, who recognize this shrinking world. We can either meet these challenges or we are going to have to face the other kinds of challenges that my subcommittee is facing at this very moment.

I must say Mr. Sperling, I was struck by the passion of your remarks, and there is little question that all of you reflect deep concern about how we impact the world's ability to change the world starting with our children, their children, and so on.

Each of you spoke in different ways about the way we might attack these things and each spoke about the numbers of children who either are not in school at all or have had no opportunity for education, and the impact of this on women particularly--and all of this goes to my heart.

India. We are close to celebrating 55 years since India gained its independence. Education has always been in the government's--rhetoric at any rate--as a very, very high priority. And that is within, as you provided Mr. Moseley, one very interesting commentary here regarding efforts to impact at the village level, education opportunity.

And the illustration itself talks about other rapid movement under H-5, 60 plus percent having some education opportunity at a higher level, and an effort to move towards 100 percent.

And, yet, that sometime in the 1990s there is an illustration that in all of these years, 55 years or so, we still have a long, long ways to go at the village level. We have spent a lot of money, that is American dollars, attempting



to stimulate those processes.

Remember in the mid-1960s that the Peace Corps had a very high percentage of their people worldwide in India. And their project was to try to impact education at the village level. So these are difficult tasks, not automatically accomplishable.

I was struck by UNICEF's effort as well, and the reality that a very high percentage of our challenges of all Africa and West Asia, where those governments are not perfect governments. And how do we go about struggling with this fact that 70 percent of the challenges that we might be talking about lie in those areas, that we have governments that are corrupt, governments that are very arbitrary, certainly in West Asia.

How do we begin to impact that 70 percent and effectively use our dollars under those conditions? I would like to have you help us better know where we are we having success, where the money will really get results? Can we effectively measure where we ought to start first putting money? You know, that is a longest series of questions, if you would like to use the rest of the day, Mr. Chairman. [Laughter.]

Mr. Moseley. I am sure my colleagues will want to join in. First of all, though, I think it is very important to recognize that---

Mr. Kolbe. Let me just note that that buzzer indicated we have a vote. So we will have to conclude in a maximum of about nine minutes here. And so if we could keep some--quick succinct answers so Ms. Lowey can get another question in.

Mr. Moseley. I will take three minutes. With respect to your comments, Mr. Congressman, I think they recognize the depth of our commitment.

But one of the things that I think you can take some pleasure in, and comfort in, is the depth of the commitment of most of the countries that are very poor and are very concerned. Now their leadership recognizes that education is a place in which investment must be made.

That is the extraordinary thing that has come about in the last decade. Before many leaders were not only perhaps corrupt on some occasions, but did not really see the strong connection between direct investment and accomplishing education goals.

But now that long-term payoff for economic change and improvement in the country's well-being is recognized by the leaders of the poorest countries and countries that are in terrible shape, in many cases, in Africa.

And they are committed to this compact, or at least to these objectives, and would like to see those investments. I think that is a big change from where we were 10, 20 and 30 years ago.

We also see that some of the countries that are in the worst shape, relative to their overall economy or their leadership, in fact are able to make improvements in education with relatively modest investments because they are putting very sizable parts of their national budget into education. The key is, can we invest modest amounts of money to leverage their funding into long-term change so they do move ahead and not get stuck in a position where a relatively few good performing countries end up, but rather perform better as a result of our investment? I think we should make those investments.

We have to make sure that the 70 or 80 countries, that are

not performing well now will get to the point where they have even a chance to be considered well-performing countries. And education gets them there. A little bit of money in education gets them there.

Mr. Sperling. Thank you for those thoughtful remarks. I am both an idealist and a realist. And so when you ask about what do you do with so many governments who do not have transparent budgets, who still have corruption and yet so many children there? I guess I go back to the framework I mentioned.

I am an idealist in that I believe that it would be the wisest investment we would ever make if this country said we are going to put in \$2 or \$3 billion a year in contingent funding, an challenge the G8 to match or exceed that. But I would be a realist in I would not give that money to countries if we did not know it was going to be well spent.

And I think that you cannot just push the money. It will just--you know, it will be wasted. It will create more cynicism among American taxpayers. We will not help the children we want. But I do not think you can just wait around and say, well, let's hope countries do good and then we will reward them. You have to, I think, have that incentive.

And you know, children do not go from the womb to running. They have to go through the crawl and the walk. And what Steve is saying is you have a country that has got a long way to go, but they could make progress in education, why would we not have that incentive out there for them, whether as part of the MCA or someone else, for them to show progress in education and transparency.

So I guess I am into the mega carrot approach. Let's give the incentive. Let's be tough.

The other thing I would just say and the last thing I will is, you know, I went through eight years of budgets. ``Earmark'' was when somebody had a little money non-competitively given for a project. It is wrong to call a global education initiative an earmark. It is not. It is a major priority that reflects very much the values of this country. And I think that more Americans would be supportive of helping education in poor countries than anything else.

And if we lead on this--what a wonderful thing. You know, the president has a preemption policy. I think we should have preemption on education. Let's not just wait until we spend money to rebuild schools in Afghanistan and Iraq. How about a major investment up front? I think it would be the best thing for goodwill for the United States to show average Muslims, African people all over the world that we care about their interests. It is for us to take a leadership role in this area.

Mr. Kolbe. Ms. Lowey.

Mrs. Lowey. Well, we are quickly running out of time. But we all know about the World Bank FTI, and we also know that there has been a lack of donor interest in response to the last round of proposals as of March. The proposals totaled about \$300 million. About \$200 million was raised. If someone wants to respond, or we can talk later, in about a minute or less.

Gene.

Because I share--you know I share your commitment. And the question is, how do we--we have the president asking for less than we would like--how do we get this donor interest?

Mr. Sperling. Right. You know, no disrespect to the World Bank or to Cream, but I think we talk about always supporting the UNESCO or UNICEF or World Bank initiative. That is not the way we should look at it.

What should the United States and the G8 do to take a leadership role?

And I think what the World Bank has tried to do is see if there is a way of coordinating. What are the standards, so each country does not have conflicting standards? What is the process where the donors could get together and decide who needs what? Who is going to fund what?

I think the thing that concerns me is this fast-track initiative is seen by the rest of the world as the only real coordinated effort. And the fact that the United States and really the other G8 countries are not putting much money in there, I can tell you, just creates cynicism around the world. It just says there is not a real contract. We are supposed to come forward with these plans but the developed countries are not really coming through.

So I think that if you do not like the fast-track initiative, I would say to the United States, make it stronger, take more ownership, do not turn it into a pilot process. And, again, U.S. commitment, particularly in the G8 process, leveraging the other countries, that is where we really have the biggest bang and biggest leadership opportunities.

Mr. Moseley. Both the fast-track initiative and the MCA will be limited to a certain number of countries. They may very likely leave out a large range of countries. For the long term, we have to make sure we bring them along to the point where they qualify for long-term improvement or can take on long-term improvement.

It would be terrible if the 80 countries or so in the greatest need--but beyond MCA--are left out, or if the fast-track initiative is limited to the current 18 countries, leaving out the other 68 countries.

That would be a great shame. We have an opportunity to make sure that a modest amount of funding, even though it seems like a large increase, would continue to bring all those countries along.

I think Mr. Wright wanted to make a comment, and then that is going to be the last word.

Mr. Wright. Thank you, Chair, I was just going to follow on and answer Congressman Lewis' question. I think really first it is a question of where do you strike the balance between needs and efficiency.

Children do not deserve to be condemned to a dismal future simply because they have a bad government, a country has a bad government. In fact, it is all the more reason to assist those children.

And that is perhaps, as Chairman Kolbe mentioned, that is where judgments have to be made about do you put money into the government or do you put money through NGOs and private sector and other organizations that can make things happen.

Because the only hope for changing those societies, in fact, is in the next generation coming through, and if you do not invest in their education now you are condemning that society to perpetual state of bad governance.

And also I think we, our perception on education has changed now, because when countries fall apart, typically the Bank or many other major agencies will withdraw from that country.

Now we understand that one of the first things you need to do to kick start normalcy in a country is to provide education. In Iraq today we see just by getting children into school we begin to create a sense of return to normalcy amongst other things.

So that I think it will be a bad choice to say because of bad governments we condemn the children to whatever future the governments lead them into.

We need to show an interest and show our support for the next generation.

Mr. Kolbe. Thank you very much, and I think on that note, which is a very good note to end this hearing, I want to thank again our people testifying today. Thank you very much for your very good contributions to our understanding of this issue.

And with that the subcommittee will stand adjourned.

[The written statement of Thomas H. Kean, President of Drew University and questions and answers for the record follow:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Wednesday, May 7, 2003.

#### GLOBAL HEALTH ISSUES

#### WITNESS

TOMMY G. THOMPSON, SECRETARY OF HEALTH AND HUMAN SERVICES

#### Chairman Kolbe's Opening Statement

Mr. Kolbe [presiding]. The Subcommittee on Foreign Operations will come to order.

We have votes in less than 30 minutes, and so we need to not lose any more time than possible.

It is my great pleasure today to welcome on behalf of the Subcommittee on Foreign Operations the Secretary of Health and Human Services.

This is the first time you have appeared before this subcommittee, not the normal one that you would appear before. But you do so as chairman of the board of the Global Fund to Combat AIDS, Tuberculosis & Malaria, the ATM fund, and as an energetic Cabinet advocate of expanding international health programs. We appreciate your taking the time to discuss both the ATM fund, as well as the President's \$15 billion multi-year emergency plan.

As we all know, the Secretary of State has a keen interest in these issues, and the Administrator of USAID has a large Global Health Bureau with statutory operational policy responsibilities in many developing countries. Both have already discussed aspects of the fiscal year 2004 international health budget in earlier testimony.

Mr. Secretary, the written testimony that you have indicates that you do understand the leadership role that this

committee has held over many years with regard to international programs to fight HIV/AIDS, tuberculosis and malaria. In particular, we enthusiastically support the President's initiative to establish the Global Fund and provide start-up funds for it before it was formally organized. Last year, our appropriation for the fund was \$250 million, compared with the request of \$100 million that had been made by the administration from this subcommittee.

Same time, we know that there are enormous challenges which face the Global Fund. We are aware of the vulnerability of any organization awarding large amounts of money in countries that are poorly organized and often lack transparency or suffer from corruption.

I personally spend a good deal of time with Dr. Feachem and the Fund's staff, as well as being on site visits to countries where the Fund is active.

The GAO report that is being released today and we are going to hear about and discuss today in this subcommittee is a tool to help our subcommittee and the Fund. It is a snapshot of Global Fund procedures and operations at the end of one year.

We all need to work closely--as this hearing indicates, we already do--to make sure that the Fund operates properly.

This subcommittee is considering requests for many hundreds of millions of dollars for ongoing and new bilateral programs to fight AIDS and other infectious diseases, and that is also part of what we want to try and sort out here today.

It is evident that the President expects you and your department to participate with State and with USAID in the management and implementation of several of them, notably the proposed Emergency Plan for HIV/AIDS and the Mother and Child Initiative which is already under way.

An objective of this hearing is for us to better understand the proposed roles and responsibilities of the federal agencies that seek to utilize appropriations for international health that fall under this subcommittee's jurisdiction.

We would also like to better understand the role of the proposed coordinator of international HIV/AIDS programs that was incorporated in the authorization bill that the House approved just this last week.

So your testimony to us on all of these accounts is very important as we begin our process of preparing for the markup next month.

I know that members are anxious to ask questions and exchange views with you, but before I turn to Ms. Lowey for her opening statement and then your abbreviated statement, I want to just outline for everybody the order of what we are going to do here this afternoon.

At the conclusion of the Secretary's testimony we will take one round of questions from those that are here, and then he will be excused.

We then have two more witnesses who are very much at the heart of what we are talking about today: first, Dr. Gootnick of the General Accounting Office, who will outline the findings of the GAO study of the Global Fund that we requested some months ago; and then we will proceed to hear from Dr. Richard Feachem, the executive director of the Global Fund.

And after he has concluded his testimony there will be a

round of questions for both of them, for Dr. Feachem. And if there are some for Dr. Gootnick and the conclusions of the study, he will also be called for questions at that time.

This committee room is reserved for another subcommittee at 5 o'clock, so we have to conclude well before that time, and we have a minimum of three and a maximum of seven votes in about 20 minutes here.

With that, Ms. Lowey?

#### Mrs. Lowey's Opening Statement

Mrs. Lowey. Thank you very much, Mr. Chairman.

I join Chairman Kolbe in welcoming our witnesses this afternoon. I look forward to your testimony.

I want to particularly welcome Secretary Thompson to the Foreign Operations Subcommittee for your first appearance here.

Last week the House passed a bill authorizing a total of \$15 billion over five years to combat infectious disease globally, in particular HIV/AIDS, tuberculosis and malaria. The action was a response to the President's commitment announced earlier this year to devote new resources to these problems. And while I certainly applaud the President's initiative, I do have several concerns which I intend to address this afternoon.

This includes, number one, the shortfall of over \$1 billion in fiscal year 2004 between the \$3 billion authorized and the \$2 billion actually requested in the budget.

Two, the new management structure mandated in the bill at the request of the White House, which requires that all HIV/AIDS funding go through a new coordinator.

Three, the requirement that 55 percent of HIV funding be devoted to treatment by 2006.

Fourth, the shortfall in resources to the Global Fund.

And lastly, White House support for a shift in emphasis toward abstinence-only programs and for unnecessary limitations on implementing organizations.

Mr. Secretary, everybody wants to see more resources devoted to solving the global AIDS pandemic, and those of us who have struggled for many years to achieve consensus on this are very grateful for the President's initiative.

However, the request for fiscal year 2003 from the President is at least \$1 billion short of the authorization level in the House bill, which is \$3 billion. The White House endorsed the bill and the House voted overwhelmingly for it.

I will proceed with a few questions, and then we can get back to the real questions.

I would appreciate if you can speculate as to where the extra \$1 billion will come from. Does the president intend to send up a budget amendment? Is the Appropriation Committee's 302A allocation going to be increased to accommodate this increase? And I look forward to your clarification of this, Mr. Secretary.

The president has requested that \$450 million be provided directly to a new HIV/AIDS coordinator, and the House bill contains a provision requiring that all HIV/AIDS funding, including AID and HHS funds, be run through this coordinator's operation. Is there something wrong with the current direction of either HHS or AID programs?

I would appreciate it if you could address this in your remarks, how a new State Department coordinator will add value to our campaign against infectious diseases. My fear is that it will only slow down implementation of vital ongoing programs, while at the same time creating new, poorly-designed top-down programs put together by well-meaning non-experts. Instead of increasing the effectiveness of the HIV/AIDS assistance, I believe the impact of the new coordinator position will be to create confusion and lack of program coherence in affected countries.

My distinct impression is that the different U.S. government agencies implementing HIV/AIDS programs overseas work well together and with other donors. It is here in Washington where various agendas clash. And this has resulted in the coordinator proposal.

Virtually everyone supports the concept of using more resources for AIDS treatment, however the difficulties in achieving success in this field are most vividly demonstrated by the devastating statistics cited by the president himself in the State of the Union. Fewer than 1 percent of those infected with HIV overseas have access to the appropriate drugs for therapy.

Of the \$1.5 billion the United States currently spends on HIV/AIDS, only between 10 and 15 percent is spent on treatment. Yet the House bill mandates that 55 percent of all HIV/AIDS funds be spent on therapeutic treatment by 2006. It further mandates that 75 percent of those funds be spent on drugs for treatment.

These requirements bring up a series of important questions which I hope the administration is considering as it continues to develop the president's proposal. How do we get to 55 percent? What prevention programs will be scaled back to meet this target? With the White House mandate for greater emphasis on abstinence programs, are you going to cut programs aimed at high-risk target groups to achieve this percentage?

The draft GAO report on the Global Fund to fight AIDS, TB and Malaria identifies a funding shortfall of \$1.7 billion for 2003 and \$3.3 billion for 2004. These are based on projections of the number of technically sound proposals fund experts expect to receive for the third and fourth rounds of grants. We know these expectations are real because the fund has worked carefully with potential grantees to shape their proposals.

The United States has been the most generous donor to the fund so far, thanks mostly to the efforts of this subcommittee, but the fiscal year 2004 requests stand at \$200 million. The House bill authorizes up to \$1 billion. The need has been demonstrated clearly. Where would the extra resources come from?

Finally, and I promise Mr. Chairman it is finally, but I wanted to get this all in at the beginning, Mr. Secretary, I need to address what might be the most important aspect of our discussion today.

Unfortunately there is a fundamental misunderstanding here in Washington about the harsh reality faced by African women. In many countries in Africa, contracting HIV, as you know, is a death sentence, because treatment is just not available. In many cultures, women are monogamous while men have multiple

partners. Economic reality often forces men to leave home for months at a time, resulting in a high incidence of extramarital sex. This accelerates the spread of HIV among men, but also among women who are abstinent before marriage and monogamous in it, yet are doomed to waste away when they contract HIV from their husbands.

If we allow the push to mandate an abstinence-only approach to HIV prevention programs to replace the balanced ABC approach, we will be taking away the slim hopes, in my judgment, of millions of women, married and unmarried, that they can avoid HIV infection. Our strategy must remain as it has been until now, promote and value abstinence, encourage monogamy in both men and women, teach the lifesaving use of condoms and work freely with high-risk groups.

I reiterate, Mr. Secretary, that this approach is nothing new, as you know. It is the basis for the famous Uganda model. It is by and large the result of U.N.-and U.S.-funded research. It is working in some countries; it will work in others if we implement it. The push by some in Congress and the White House may be well intentioned, but it has the potential to devastate our HIV prevention programs.

And I do want to ask forgiveness for my lengthy remarks, but I feel these issues are so vital. And I will save the detailed questions for later on. Thank you very much.

Thank you, Mr. Chairman.

Mr. Kolbe. Mr. Secretary, as always, of course, your full statement will be placed in the record. You are welcome to proceed with however you wish at this point.

#### Mr. Thompson's Opening Statement

Mr. Thompson. Thank you very much, Mr. Chairman. And first, let me apologize to you for being five minutes late, but I was in the building waiting for an elevator and then it stopped and I got stuck in the elevator. So I want to apologize first for that.

And, Ms. Lowey, I would like to also tell you that I agree with a lot what you have said. I know we have had this discussion before, but thank you so very much, members, for giving me this opportunity, as the secretary of the Department of Health and Human Services, the opportunity to talk with you this afternoon about our global response to the HIV/AIDS pandemic.

As the first stage of an unprecedented commitment to fund this fight against the scourge, the president, in July of last year, announced his \$500 million International Mother and Child HIV Prevention Initiative, which was put together by my department after my visit to Africa last April.

Jointly implemented by HHS and our partners at the U.S. Agency for International Development, this program is a strong model of good government and demonstrates how quickly the United States can get much-needed resources out the door through our bilateral mechanisms.

In consultation with our U.S. ambassadors, HHS and the USAID field staff, we have worked with host governments and non-governmental organizations in 14 countries of Africa and the Caribbean to develop for the first time, as you have



indicated and really sponsored many times, Mr. Chairman, a unified U.S. government country-specific strategic plan for action.

We expect that this initiative will target 1 million HIV-infected women annually within five years or less, and reduce the mother-to-child HIV transmission by 40 percent in the targeted countries, and, if we are able to get the anti-retroviral drugs to these women, we will be able to get that up to 99 percent.

A second goal of this initiative is to improve health care systems that provide care and treatment, not only to mothers and babies, but to fathers, children and their communities.

We began investing in this initiative even before Congress finished work on the fiscal year 2003 appropriations bill. We redirected \$5.5 million of our own HHS Global AIDS Program fiscal year 2002 resources to permit our joint HHS and USAID country teams to conduct in-depth baseline assessments and draft the interim plans.

A multi-agency steering committee, led by HHS and USAID, under the auspices of the Office of National AIDS Policy, have approved 10 plans in the amount of \$54 million.

So far, pending approval for the Office of Management and Budget, the first actual cash disbursements will go to Haiti this week, just over two months after the President signed the appropriations legislation.

Approximately \$4 million more went to a consortium of American universities to begin planning for training activities. A multi-agency steering committee which is led by HHS and USAID under the auspices of the National AIDS Policy, has approved 10 plans in the amount of \$54 million so far. Further tranches of funding are awaiting clearance by OMB and congressional notification to the committee by USAID.

Administrative expenses are remarkably low for this plan, and HHS and USAID are operating the program with our existing staff.

The President has asked for an additional \$300 million in fiscal year 2004 to complement his commitment to this initiative; \$150 million each in the foreign operations budget, as well as \$150 million in the Health and Human Services budget. Beginning in fiscal year 2005, this funding will be included in a single request to fund the program, all in the foreign operations 150 account.

The Mother-To-Child HIV Prevention Initiative will provide the foundation for the implementation of the president's emergency plan for AIDS relief in the same 14 countries. These countries account for nearly 50 percent of all HIV infections in the world, and nearly 70 percent of the HIV infections in Africa and the Caribbean.

The President's \$15 billion, five-year plan, of which \$10 billion is new money, will virtually triple our commitment to international HIV/AIDS assistance, which now stands at a government-wide base of \$1 billion a year.

According to our goals, the effort will prevent 7 million new HIV infections; that is 60 percent of the projected new infections in the targeted countries. We will also treat 2 million HIV-infected people with anti-retroviral drugs; up from less than 100,000 on those medicines today in the 14 targeted

countries. And we will care for 10 million HIV-infected individuals and AIDS orphans.

Implementation will be adapted to local circumstances and based on a network model which is being employed in countries such as Uganda. This model consists of a layered network of central medical centers that support satellite centers and mobile units with varying levels of medical expertise as treatment moves from urban areas to rural communities.

It will build directly on clinics on the site, and the programs established through HHS, USAID, and non-governmental organizations, faith-based groups and willing host governments.

Over 50 percent of the resources will directly support treatment, and more than a third will expand prevention activities. We will have the flexibility to adjust resource allocations based on scientific data as it becomes available.

Since the impact of HIV/AIDS in the world is so severe, we need to be flexible, we need to be generous with this program.

As an example, we have decided that while our projected figure for anti-retroviral treatment is 2 million people, all persons who receive HIV diagnostic testing through the President's plan and who meet the medical criteria for anti-retroviral therapy will receive it.

We expect that our joint HHS and USAID teams will follow a similar process in designing unified U.S. government strategic plans for each one of the 14 countries, again, in consultation with our partners, all oriented to the scientific and the specific measurable goals the President has set out for us.

The President wants to make sure that taxpayers' dollars are making the maximum difference for the maximum number of people. A special AIDS coordinator with ambassadorial rank at the Department of State will oversee the budget and the implementation of the emergency plan. We look forward to working with that individual after his or her Senate confirmation to roll out this critical program.

The Mother and Child Prevention Initiative will be fully subsumed and integrated into the larger plan during fiscal year 2004. And we fully expect that the interagency cooperation we have seen so far in that effort will be the hallmark of the administration of the President's emergency plan. We at HHS are planning to take steps so that all of our international AIDS programs dovetail with the President's vision.

The President has asked for \$450 million in fiscal year 2004 to begin the emergency plan all in the Foreign Operations Account. There is no request for emergency plan funding in the HHS budget for next year because all of the funding will flow first to the coordinator at the State Department who will then make allocations to HHS, USAID and the other partners based on their demonstrated ability to implement sections of the unified strategies in each of the countries.

The President's plan is already building on the expertise of our HHS Global AIDS Program, and that of the rest of our agencies. We work directly with 25 countries in Africa, Asia and Latin America, as well as the Caribbean, in order to prevent new infections, provide care and treatment for those already infected, and to develop the capacity and the infrastructure needed to support these programs.

As you know, Mr. Chairman, the President's emergency plan

for AIDS relief includes both a pledge of support for a dramatic increase in our bilateral assistance, as well as a \$1 billion multi-year commitment to the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria.

The United States is and always has been by far the largest donor to this fund. We are responsible today for more than 50 percent of the total pledges.

As you know, I was elected chairman of the fund this past January. As chair, I am happy to be able to report today that the fund has approved 156 projects in 92 countries and has committed more than \$1.5 billion since April of 2002. The fund has disbursed approximately \$20 million to grantees so far, and the pace of disbursements is accelerating rapidly.

But with these successes come cautions. In my role as chair, I am working hard to ensure that the fund has the right management and the accountability systems in place in order to fulfill this subcommittee's vision, as well as mine and the President's.

Both the President and I are committed to making the fund work and to coordinating the fund's grants with bilateral assistance. The fund's board has approved 36 grants to fight AIDS, tuberculosis and malaria in 13 of the 14 target countries included in the president's initiative. These grants will disburse a total of \$609 million over two years. I am working both within the U.S. government and at the fund to ensure that our investments are complementary and not duplicative.

Mr. Chairman and members of the subcommittee, I commend the leadership that you have shown for many years on this issue. And I commend the leadership that the entire House of Representatives has shown in taking action to stem the tide of the HIV/AIDS epidemic by passing this historic authorizing legislation last week. HHS stands ready to direct its expertise and help, as well as in HIV/AIDS to effectively implement the President's vision that the House of Representatives has already adopted.

Thank you for allowing me, Mr. Chairman, to be with you this afternoon. I am delighted to be here and happy to answer your questions at this time.

[The statement of Mr. Thompson follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Kolbe. Thank you very much, Mr. Secretary.

We are about to begin five votes, which will take us approximately 45 minutes. I doubt the Secretary can stay that long, so we will go as fast as we can. I am going to ask one question, and will ask each to ask a question so we can get through as many as possible. We will submit many, many, many questions for the record, I know.

Mr. Thompson. Mr. Chairman, if you want to submit them, I will be happy to respond in writing to each and every one of them.

Mr. Kolbe. I am sure that we will submit a lot of questions, I am sure. But let me just ask you for the record one here today dealing with the Global Fund.

## OVERSIGHT AND ACCOUNTABILITY

And I wonder if you would just take a little bit of time, in your capacity as present chairman of the board of this, to talk a little bit about your objectives with regard to the oversight and accountability of the Fund awards to developing countries.

And we are very concerned about some of the things that we understand are happening with regard to procurement, and about the integrity of the local funding agents, the ones that have the oversight responsibility.

And also that the country coordinating mechanisms, the CCMs, really are not capturing as much of the local interests as I think they need to, interests outside of the health ministries, in other words the private interests.

Mr. Thompson. I agree with you.

Mr. Kolbe. If you would discuss those a little bit, I would appreciate it.

Mr. Thompson. Thank you very much, Mr. Chairman.

First off, we wanted to make sure that we have this fund set up properly and that is one of the reasons why the funds have not been sent out as aggressively as some countries would like us to do. We want to make sure that we are successful.

That is why we put in place several different kinds of mechanisms. The first one is the TPC, which is the one that actually looks at all of the initiatives, all of the programs, and makes suggestions and passes those on to us, the ones that are meritorious based upon scientific as well as other logical reasons that the committee takes into consideration.

We also, at my request here in the Department of Health and Human Services, have another committee set up to look at what the committee itself did internationally, to make sure that they are absolutely the kind of programs that we should be funding.

I am happy to be able to report that NIH and CDC have indicated that the programs that we are funding are absolutely the correct ones and the ones that should be receiving the funds.

After that we set up the coordinating committee in the countries. And I agree with you, and as chairman I am going to try and get more NGOs involved, and that is one of the reasons the NGOs were so happy that I became chairman, because I think there needs to be just not only governmental ministries looking at and supervising this money. We need to get more involvement by the NGOs in-country to be able to do that.

We are also spending approximately one-half of the administrative money that we spend to set up the secretariat, which is about \$31 million--almost half of that is going to go into the financing committees to be able to oversee and to be independent of the committees and in-country so that they will make sure that the money is being well spent.

They will be hired by the secretary, by the Global Fund board, in order to supervise the expenditure of the dollars so that we get the performance that we expect-on each and every program.

We think it is a very sound method. We think it is one that is going to work extremely well. We need your help and input.

We are working very hard to make sure that every program has the financial responsibility and the accountability that you would want and that I would want.

Mrs. Lowey. Thank you, Mr. Chairman.

#### UGANDA MODEL

Mr. Secretary, as you know, the success of the Uganda model is based on the ABC approach to HIV prevention, along with all-out efforts by President Museveni to talk openly about the problem.

Mr. Thompson. That is correct. And his wife.

Mrs. Lowey. Correct. And they have talked with people in the gay community and, prostitutes, and they are still struggling with the epidemic but we have seen a tremendous decrease from 15 to 5 percent.

As you know, the rules governing domestic abstinence until marriage programs prohibit those programs from mentioning contraception, except to discuss contraceptive failure rates. Is this the policy that you envision will govern U.S.-funded abstinence-only programs abroad?

Mr. Thompson. We are going to be using the Uganda model pretty much in total, and try and get that adopted in some other countries.

It will not be able to be successfully adopted in each and every country; each and every country is different. But we will be using the ABC model, as you have indicated, Ms. Lowey, and we will be using this to the best of our ability.

Mrs. Lowey. I am delighted to hear that. And what will happen with the one third of the money that has been authorized by the House for abstinence only? Do you think it will change in the Senate?

Mr. Thompson. We certainly will have to comply with what the Congress passes, there is no question about that.

Mrs. Lowey. But do you intend to use the ABC model?

Mr. Thompson. That is correct.

Mrs. Lowey. Thank you.

Mr. Kolbe. Mr. Wicker is next.

Mr. Wicker. Thank you very much, and thank you, Mr. Chairman.

Mr. Secretary, we appreciate your attendance and your testimony.

Let me follow up about the Uganda model and ask this: You acknowledged that there are differences from country to country.

Mr. Thompson. There are.

Mr. Wicker. But as I understand it, in Uganda, there was a first-class university hospital, which served as the focal point, also adequate medical personnel to carry out the programs throughout the country. In how many of the 14 proposed target countries are we going to have that first-class university hospital and sufficient medical personnel?

Mr. Thompson. It varies in all of the countries, Congressman. I cannot give you specifics, but I certainly can get that information for you. I do not know it off the top of my head at this point in time. But I know that there are some good regional hospitals in several of those countries, and

there are some that do not have the adequate kind of coverage.

But overall, throughout all sub-Saharan Africa, we have to do more in building the infrastructure. Every single country, including Uganda, needs more medical personnel, more nurses, more doctors and more health workers.

We are also setting up, through a consortium of universities--and that is one part of the \$4 million that we spent, in order to set up a way in which we can try and train more individuals. We are doing a great deal of setting up what we call twinning, in which we are trying to get hospitals in the United States to adopt a hospital in one of these 14 countries. And they will then help supervise and help recruit and help monitor the kinds of programs that are needed.

We are doing the same thing with trying to get state medical societies to send doctors into the region and try and give them the opportunity to spend two, three, four months. We are looking at ways in which that can be helpful, not only to help administer the medicine, but to help train other doctors.

We are also setting up other programs in which we are trying to take a look at high school students and other individuals and teach them in regards to the supervision of and administering the drugs.

The new drugs are much easier to administer than the old anti-retroviral drugs. And therefore it does not take--I should not in any way minimize the medical thing, but we think we can train high school graduates and some college graduates to do a lot of the monitoring, a lot of the questioning and finding out whether or not individuals are taking their medicine, go out and do the interviewing in the rural areas.

And so we are looking at all these things, across the board, in order to fight this terrible epidemic.

Mr. Kolbe. We will go until eight minutes and the vote, and then we will stop.

Ms. Kilpatrick. Thank you, Mr. Secretary. I appreciate your comments Ms. Lowey on the ABC model, and it is effective and it has worked, proven by President and Mrs. Museveni, as you said.

Mr. Thompson. She is coming to see me next week.

Ms. Kilpatrick. Oh, please make sure she sees Congresswoman Kilpatrick when she is here.

Mr. Thompson. Okay. I will tell her to come up and see you.

Ms. Kilpatrick. For sure.

I want to talk a minute about the coordinator.

Mr. Thompson. The coordinator here or the coordinator in-country?

#### AIDS COORDINATOR

Ms. Kilpatrick. The AIDS coordinator, who I assume is going to be working where? That is a good question. Where will the AIDS coordinator be working?

Mr. Thompson. Are you talking about the one the President is going to appoint and when is going to have ambassador rank?

Ms. Kilpatrick. Yes.

Mr. Thompson. That individual has to be Senate-confirmed, and that individual will be in the State Department.

Ms. Kilpatrick. In the State Department. Why is there a need for a separate and a new entity, rather than going

through----

Mr. Thompson. The President's thinking on this is that he wants somebody that he can call up and say, ``How is this program working?'' He wants somebody that is going to be directly responsible to the president, to the White House, to get the job done. And he wants to make sure that that individual has only one responsibility: to make the HIV/AIDS program works. And that is the reason he is setting it up.

Ms. Kilpatrick. Okay, and that would be who currently? You otherwise, as HHS secretary? However, because of the need and the pandemic and the attention that we are paying to this, we believe and the president----

Mr. Thompson. More than likely would have been USAID, not me.

Ms. Kilpatrick. Okay, and not----

Mr. Thompson. I liked it to have been me, but I was not asked.

Ms. Kilpatrick. I am concerned. I do not want to know the bureaucracy. I think it can work if we do not put another layer in there. And just like with the MCA, a new entity being set up, I am concerned that this new coordinator will be more of a political figure rather than someone with knowledge and expertise.

Mr. Thompson. I do not agree with you, Congresswoman.

Ms. Kilpatrick. I hope I am wrong.

Mr. Thompson. I think you are, because the president is absolutely passionate about this. I have had many discussions with him. He wants this program to work and he wants somebody that he can call up on a regular basis and say, ``Tell me, where are the moneys going, how are the moneys working? Give me the results.''

Ms. Kilpatrick. Does that eliminate the existing aid programs that are now in those 14 cities? There will be no need for that with this new configuration?

Mr. Thompson. No, this is going to be a complement.

Ms. Kilpatrick. In addition to.

Mr. Thompson. Yes.

Ms. Kilpatrick. Thank you, Mr. Chairman.

I have some more questions; can we put those in writing?

Mr. Thompson. Absolutely.

Mr. Kolbe. Absolutely. All questions can go on the record. We will have several here. We may even get back for another couple of questions here.

Mr. Lewis. Thank you, Mr. Chairman.

And, Mr. Secretary, welcome.

Mr. Thompson. Thank you very much.

#### HIV/AIDS CASES

Mr. Lewis. Mr. Secretary, in 1981, I remember sitting on the House floor with two of my colleagues, the former, now passed, Julian Dixon and Victor Fazio, asking them to sign a resolution which called for a presidential commission on a thing called AIDS. And they said, ``You want to do what?'' Because none of us, either side of the aisle, even knew what the term meant in those days.

And with that resolution was the first dollar contribution

ever made for research in this subject area. We have come a long ways with this research, and we are learning a lot.

But as Everett Koop suggested, the surgeon general, this thing is like the flu virus: it mutates, et cetera. The challenges are endless. So because of that I am wondering why, within this package, is there \$10 billion promised by the President directed toward 10 or a specific 12 countries in Africa and Haiti and Guyana, and not to places like India, China where under the surface there is a huge problem.

Mr. Thompson. The reason being is that this is where approximately 68 percent of all the HIV/AIDS cases are in the world. And we are going to have a tremendous impact. And we think that we got the structure set up there that we can move relatively rapidly in there to try and control it.

First off, I would like to compliment you on your leadership and vision in 1981.

Secondly, I thank you for your support on this.

Third, we are going to be doing things in India through the Global Fund, but we are looking bilaterally at these 12 countries in Africa and the two countries in the Caribbean where 60 to 70 percent of the world's AIDS cases are right now. We think this is going to give us the biggest bang, give us the opportunity to see if we can somehow get some kind of controls under the burgeoning and the exponential explosion of this disease.

Mr. Lewis. Appreciate your response, but let me say that I feel very strongly that, while those educational efforts and control efforts are critical, research dollars going to fabulous institutions around the world are every bit as important.

Mr. Thompson. Well, as you know, we are still spending a lot of money in research up at NIH, and about 75 percent of the money spent on HIV/AIDS research is going out to university research centers, not only in this country, but worldwide.

Mr. Kolbe. Well, since we have about one more minute or so, let me just follow up on that.

Is there any flexibility in the President's plan to be able to allow other countries to be brought into it if the circumstances change? Can you look at the situations?

India is going to have so many cases that it is going to clearly be one of those that is going to be contributing to the 60 percent. I think it is already. But it is clearly going to be one of those that is going to be contributing.

How flexible are you going to be on being able to make adjustments in terms of the countries that are the recipients of this program?

Mr. Thompson. Without specifically talking to the president on this, I am fairly satisfied that once we set up the successful model, Congressman, Mr. Chairman, I am fairly confident that if we are successful this will spread; and if not through bilateral effects, through the Global Fund.

Mr. Kolbe. Is the whole idea of the bilateral program, setting this thing up with a new coordinator there, that we simply are not able to deliver programs currently through the mechanisms that we have or through the Global Fund?

Mr. Thompson. No. I think we have done quite well, Mr. Chairman, in getting the things out. But this is going to be a



massive infusion of new dollars, and he wants one person absolutely focused all the time on this particular subject; to be able to travel, be able to set up the programs, be able to monitor them, be able to look at competing interests between USAID, Department of Health and Human Services, NGOs, and find out what is working. It is just a much more targeted approach that the president feels is necessary with this kind of an infusion to have that kind of focal point.

Mr. Kolbe. But he is going to be not just a policy person, he is going to be an administrator of a massive, massive new program, of a new bureaucracy, massive new bureaucracy.

Mr. Thompson. Administrator, an implementer and a contractor. I do not think that this is going to have the kind of bureaucratic growth because they are going to be depending upon the expertise in USAID and Department of Health and Human Services, as well as NGOs and faith-based organizations that are going to be able to do this.

Mr. Kolbe. Hope you are right.

Six minutes; we must recess.

We thank you very much, Mr. Secretary, for being here.

Mr. Thompson. Thank you, Mr. Chairman.

Mr. Kolbe. And we will stand in recess, and we will resume with Dr. Feachem and Dr. Gootnick as soon as we come back from these votes.

Thank you very much.

[Recess.]

Mr. Kolbe. The subcommittee will resume our second part of our hearing here, to hear from and about the Global Fund to Fight AIDS, TB and Malaria. Several months ago this subcommittee requested the General Accounting Office to look into the progress of the Global Fund, how it was being implemented and problems and challenges that are faced.

And I am happy to say we have that report in hand today and this is the purpose of this hearing as to not only receive that report but also to hear from the GAO as well as from the executive director of the Global Fund.

So at this point we are very happy to welcome Dr. Gootnick, who was the lead on this particular report and who will cover a brief summarization of it, and then we will hear from Dr. Feachem, and then we will take questions.

Dr. Gootnick.

Wednesday, May 7, 2003.

#### UNITED STATES GENERAL ACCOUNTING OFFICE

#### WITNESS

DAVID GOOTNICK, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GAO

#### Mr. Gootnick's Opening Statement

Mr. Gootnick. Mr. Chairman, thank you for the opportunity to be here today to discuss GAO's assessment of the first year operations of the Global Fund to Fight AIDS, TB and Malaria. Briefly, by way of background, the fund has received \$3.4 billion in pledges. The United States has pledged \$1.65 billion

and is the fund's largest donor. Over two rounds of grant-making, the fund has approved 153 grants, totalling nearly \$3.7 billion over 5 years.

The chart on my left, which is reproduced in my written statement, shows that roughly two thirds of the funding is directed towards HIV/AIDS and just under two thirds of the funding is directed to sub-Saharan Africa.

Our report released today has four key findings in the areas of governance, oversight, resource mobilization and grant-making. Of note, in each of these areas, the Fund in its first year of operations has recognized and begun to respond to the major challenges cited by GAO and others.

First, on governance structures. The Fund has rapidly established its governance structures at the headquarters and country levels, yet as of late 2002, country-level governance structures needed better communication and participation. The Fund requires potential recipients to establish a country-coordinating mechanism as a forum to develop, review and submit grant proposals.

The Country Coordinating Mechanism, or CCM, should include locally-based government, private sector and civil society representation. The CCM designates the principal recipient of the grant. Effective CCMs are central to the Fund's vision of broad-based response to AIDS, TB and Malaria.

However, during our field work in Haiti, Honduras, Tanzania and Ethiopia in late 2002, we observed a lack of clearly defined roles and a need for broader participation and improved communication processes of CCMs. For some first-round grants, these issues hampered effective start-up of country-level operations.

Second, on oversight. The Fund has developed comprehensive oversight mechanisms, yet the introduction of fund oversight has been slowed by controversy. At the local level, the Fund's oversight of grant recipients is through its Local Fund Agent. The Local Fund Agent, or LFA, is an independent entity hired by and accountable to the secretariat of the Fund.

The LFA ensures that grantees account for the money they spend, reviews the grant's progress and assesses the grantee's ability to procure goods and services. However, the introduction of the LFA has been slowed by controversy and misconceptions.

For example, during our field work, we observed stakeholders in recipient countries who believed incorrectly that the LFA is charging an exorbitant fee and deducting it from the grant. We also observed misunderstandings regarding eligibility criteria for serving as an LFA. These problems delayed implementation of some first-round grants.

Third, on resource mobilization. Current pledges to the Fund constrain its ability to approve new grants. As the chart to my right shows, the Fund faces short- and long-term resource constraints.

In the short-term, the Fund has roughly \$300 million available for new grants in future rounds. This is far less than the Fund projects it will need to support technically sound proposals. This constraint is evident when comparing pledges through 2003, with two-year commitments to already-approved grants.

This figure is also reproduced in our written statement. The pledges through 2003 and two-year commitments to already-approved grants leaves roughly \$300 million available for future rounds.

In the long-term, the Fund faces a potential short-fall in funding of already-approved grants. This is evident when comparing total pledges to the Fund with its potential five-year commitments to grantees; that is total pledges to the Fund to date, and five-year commitments to grantees.

Fourth, on grant-making. Although challenges remain, the Fund's grant-making processes have been strengthened significantly in its first year.

Between its first and second round of grants, the Fund made numerous improvements in its grant-making processes. For example, it altered eligibility criteria to ensure a focus on the neediest countries.

It also added additional members to its review panel to better prepare it to evaluate non-medical development-related issues.

Our report cites two ongoing challenges to the grant-making process. First, ensuring that grants augment and complement existing spending on AIDS, TB and malaria.

And second, evaluating the recipient's capacity to effectively use grant funds. In conclusion, Mr. Chairman, the Fund has made noteworthy progress in its first year, and despite major challenges, is a promising mechanism to fight these three diseases.

Our analysis suggests that the Fund's success will depend on its ability to build effective, locally-based governance and oversight structures, and on its ability to raise the resources necessary to approve and finance grants.

This concludes my prepared statement. I will be happy to answer any questions you or other members may have.

[The statement of Mr. Gootnick follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Kolbe. Thank you very much, Dr. Gootnick. We will then call you back in just a moment after we hear the testimony from Dr. Feachem. We will then have both of you at the table for questions.

We will excuse you for just one moment and ask Dr. Feachem to come to the table.

Let me just say before I call on Dr. Feachem for his statement, just a word or two about him and the work of the Global Fund.

We are very happy to have you, Dr. Feachem, in this first opportunity to testify before this subcommittee and to give your perspective, your very important perspective, on what is going on.

This subcommittee takes a real interest in making sure that the Global Fund is a success. The institution is new and it is unique, certainly, on the multilateral landscape as it deals with health issues in the world today.

As you know from our conversations, I personally visited grants of the Global Fund in Haiti and, of course, spent a day with you and your staff, or the better part of a day in Geneva,

to get a sense of the operations and the progress to date.

I think we all have very high hopes for the Global Fund. I think the world has high hopes for the success of this fund.

It is absolutely imperative that the structures, the grant-making process, of the procurement processes and the results of the Global Fund get up and that we can see the results of that as quickly as possible so that we can meet the expectation of both the donor and the recipient countries, as well as the civil society that is impacted by the diseases which your fund is committed to tackling.

The HIV/AIDS pandemic alone will be with us for generations if current trends continue. If we are to turn back the pandemic we have to see, I think, this institution has to be successful and play a major role in doing that.

And the bilateral programs of the United States and other countries is not going to carry the day alone. Institutions like the Global Fund are integral to our efforts to make sure that we have a coordinated worldwide response that stretches across bilateral programs through multilateral organizations, national governments of the impacted countries, as well as civil societies in those countries.

Just a word of introduction of Dr. Feachem. He was appointed the executive director of the Global Fund to Fight AIDS, Tuberculosis and Malaria at the second meeting of the board in April of 2002, so you are now 13 months or actually a little less since you actually arrived on the scene and got on board there.

But prior to his position with the Global Fund, Dr. Feachem was founding director of the Institute for Global Health in San Francisco and professor of international health at the University of California in San Francisco and in Berkeley.

So he comes to this with a great deal of background. He also has been a visiting professor at London University, for four years was director for health, nutrition and population at the World Bank. So he has worked in international health for 30 years, has published extensively on public health and health policy, and holds a Doctor of Science degree in medicine and a PhD in environmental health.

Your credentials are well-established, Dr. Feachem. We welcome you today, and unless Ms. Lowey has comments, we will take your statement and then we will go to questions with both of you.

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Wednesday, May 7, 2003.

THE GLOBAL FUND TO FIGHT AIDS, TB AND MALARIA

WITNESS

RICHARD G. A. FEACHEM, EXECUTIVE DIRECTOR

Mr. Feachem's Opening Statement

Mr. Feachem. Well, thank you very much. And good afternoon, Chairman Kolbe, and Representative Lowey and other members of

the committee.

Mr. Kolbe. I am sure we will be joined by other members who told me on the floor they were going to be coming back this way.

Mr. Feachem. Excellent. Thank you. And thank you for this opportunity to testify on the progress and prospects of the Global Fund, which is one critical component in our combined efforts to turn the tide of AIDS, TB and malaria.

I am glad to be here also with Secretary Thompson, who has brought his passion and leadership to the Global Fund as the chair of our board.

AIDS, TB and malaria are killing today at least 6 million people every year, and this number is rising rapidly. AIDS alone is the greatest disaster in recorded human history.

In southern Africa, life expectancies have already been set back to the levels of the 1920s, school teachers are dying at twice the rate that they can be trained, and 70 percent of healthy 15-year-olds will never reach their 60th birthday. The comparable figure for the United States is 10 percent.

In Nigeria, Ethiopia, Russia, India and China, we are at an earlier point in the epidemic, but make no mistake, we are on the same trajectory.

I would like to compliment both Ms. Lowey and Mr. Lewis for drawing attention both to the Indian epidemic and the scale of the problem emerging in Asia, and also for the special impact that this epidemic has on women, which is a matter of particular concern and it represents, I think, a particular tragedy in the lives of these communities.

But we can change the future. We can avert tens of millions of deaths and save billions of dollars of economic loss. We know what works, and we are every day developing better tools which will be even more effective.

The challenge is to apply known solutions on a very, very, very large scale. But to do this, we must adopt a comprehensive strategy with several distinctive pieces, which must be bound together by a common vision.

Let me name the five big pieces that constitute the comprehensive approach to which we must all be committed.

One, governments in developing countries must do much more.

Two, civil society in the developing world must be empowered and supported to contribute more effectively to the fight.

Three, bilateral assistance in the form both of money and technical support is critical. President Bush's announcement in his State of the Union is an historical turning point.

For the first time, we see at the highest political level a recognition of the immense gravity of the global threat of AIDS and the allocation of resources on the scale that is required. For the 14 countries targeted, the emergency plan for AIDS relief will make a world of difference.

Four, we also need large and effective multilateral partnerships and financing mechanisms. This includes the Global Fund as the central means for public and private donors to invest large sums efficiently and accountably.

Before I return to the Global Fund, let me not forget to include the critical fifth piece in this jigsaw, which is research and development and the need to find improved tools in

the fight against all three diseases.

And I applaud the work of this Congress in its continuing commitment to the research agenda and its continuing outstanding financial support for the needed research.

The benefits of research will come in time. But to turn the tide of these diseases in the short term, we need effective financing of existing interventions. The Global Fund was created through a consensus among the G-8, other donor nations, activists, effective countries and communities and the U.N. Secretary General to be the principle multi-lateral financing mechanism for the fight against AIDS, TB and malaria.

The Global Fund has been working since January of 2002 to realize that vision. It was the fund's originators that said it must be independent, that it must not be business as usual, that it should draw heavily on lessons and experience from the private sector.

I, myself, have been a consistent critic of development assistance. We do not need another entitlement fund with politicized governance. We do need an effective financing mechanism that can tie investment to the production of results.

Three goals characterize what the Global Fund must do to have a distinct and additive role and to play its full part in a comprehensive global response.

First, we must enable and support local partnership and local ownership. And a part of this is the country-coordinating mechanisms, which have been somewhat commented on already this afternoon. And I want to digress slightly to make a couple of comments about country-coordinating mechanisms.

Today, 50 percent of the members of the country-coordinating mechanisms are from outside government. They are from one or the other form of civil society.

It may be NGOs, it may be the private sector, it may be faith-based organizations. But roughly 50 percent of CCM membership today is from outside government.

Secondly, 65 percent of all the individual CCMs have a faith-based organization or more than one faith-based organization represented around the table.

In Burundi, remarkably, 20 percent of the CCM members are from faith-based organizations. In Haiti, a journalist sits on the CCM.

When I was back in San Francisco before I took the job of executive director of the Global Fund, and I heard about the invention of CCMs, and the creation of CCMs, the method by which the Global Fund would talk to individual countries, I was skeptical.

I have become a great enthusiast, and although we have a good distance to travel to make CCMs ideal, I think the big news about CCMs today is they are working much better than I would have thought they would be at this stage. And in some countries, they are working very well, indeed.

We are working with our board to find various to incentivize the laggard CCMs and to push them in the right direction. But in my view, the glass is half full on CCMs, not half empty.

The second, I think, special commitment to the Global Fund is to reduce transaction costs. And I am happy to elaborate on that at the question time.

And the third, of course, is to finance a comprehensive and very large response to the pandemic.

If that is what we are trying to do, then how are we doing? A fair and important question which should be asked repeatedly and which the Global Fund must answer honestly .

In 2002, we began to create the Global Fund from the ground up, establishing an infrastructure, recruiting staff and designing systems to achieve our purpose.

By the end of 2002, we signed our first grant agreement and made our first disbursement. Now, four months later, we have signed grant agreements with 80 percent of the countries we approved a year ago, and disbursed initial funds totally about \$21 million to 25 of those countries.

We have also conducted a second round of proposals which were approved in January. We signed the first grant agreement with a round two grantee within three months of that approval.

Our pace is not good enough, but it is quickening, as it must to scale up the response and to save lives.

We are today, as others have commented, committed to roughly 155 programs in 92 countries. Nearly half of the money represented in those commitments goes to non-governmental organizations.

What will this money do? Well, over the lifetime of these grants, which is five years, although our initial commitment is only for the first two years, it will put 500,000 people on anti-retroviral therapy. It will place two million additional people on effective TB treatment. It will increase the treatment of drug-resistant malaria in Africa from a current extremely low level of about 15,000 per year to 20 million.

And it will finance the purchase of 30 million insecticide-treated bed nets, which we know are a central preventive strategy for the control of that great killer of African children.

Round three, which is currently under review, and subsequent rounds, will add much more to these achievements and scaling up.

But what have we achieved now? Is the Global Fund saving a life today? The answer is yes, a modest yes, but indeed a yes. Our first recipients are spending their money and results are being achieved. Let me give the example of Haiti.

Six-hundred people have started anti-retroviral therapy in Haiti because of the Global Funds. Three-hundred people have begun treatment for TB. A health clinic has been reopened, and five more have better labs and drugs on their shelves. One NGO has increased access to mother-to-child prevention of HIV prevention by five fold.

These are small steps towards our very ambitious goals, but they are signs of hope, and they are the first results of many, many more to come. To better achieve these results, we need constructive criticism and insight on how we can do better.

I am very grateful to Chairman Kolbe and this committee for requesting the GAO analysis, and I thank the GAO team for conducting an honest and forward-looking assessment. The GAO's findings reflect both the quick progress and growing pains inherent in an effective start-up organization.

I will be happy to discuss the specific issues raised by the GAO in the discussion period.

Let me conclude by commenting on three questions that I hear most clearly on my visits to Washington.

``Where are the other donors? Where are the results? And should we support the bilateral initiative or the Global fund?''

Firstly, where are the other donors?

Concerning contributions and pledges, the U.S. will be out ahead of its fair share if other donors do nothing more. Other donors need to step forward, and they are stepping forward. We are pursuing the private sector through a number of avenues, and we are knocking on the doors of new public money, including the European Development Fund, and the U.K.'s International Finance Facility.

In the short term, the major donor nations, particularly the G-8, will surely be responsible for most of the refinancing of the Global Fund. Secretary Thompson and I are working vigorously to maximize the commitments of the G-8 as we approach the G-8 summit in Evian the first week of June.

On July 16, a donors' conference is being held in Paris, at which all supporters of the Global Fund, public and private, will discuss our resource requirements.

I am very much hoping Chairman Kolbe and Ms. Lowey that you will accept our invitation to come to Paris on July 16 and join in these important discussions.

It is my understanding that some will make new pledges, including France. It is essential that the United States maintain its leadership in financing the Global Fund, and its commitment to a fair share of the fund's needs. This provides a strong incentive for others, both donor nations and the private sector.

But these resources are only half of the deal we are striking. The other half, of course, is results, results, results. I commit, and the secretariat commits, and the board commits, to getting you the results that you expect.

Large-scale reductions in disease will take time, but soon we will be able to show increasing numbers of people receiving effective prevention and treatment services. These increases in coverage will drive further funding and further results, and bring us closer to the day when we can demonstrate that the tide has turned.

The last question that I hear frequently in Washington is the one that pits the bilateral initiative against the Global Fund and asks which should we be supporting and which should we be advocating for.

The answer is very clear, and Chairman Kolbe gave that answer in his opening comments, in his introduction of my presentation. The answer is, both.

If you look at the global architecture necessary to turn around the HIV/AIDS pandemic, the like of which we have never seen, we need very strong bilateral initiatives. And the one announced by President Bush in the State of the Union is by far the largest.

And we also need an effective multi-lateral response to finance the necessary action against the pandemic in many, many more countries. And we are today committed to 92 countries.

So it is not a choice between the bilateral initiatives and the Global Fund, it is the need for both of these, and the need



for the necessary collaboration and coordination between them, which Secretary Thompson referred to.

Thank you again for this opportunity to speak before this committee. I have submitted copies of my testimony for the record and also have available copies of a brief fact sheet and update on the Global Fund.

I am very happy to answer questions that the committee may have.

Thank you.

[The statement of Mr. Feachem follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Kolbe. Thank you very much.

Dr. Gootnick, if you would join Dr. Feachem at the table there, both of you share that microphone.

Ms. Lowey, I understand you have to be across the hall in a few minutes.

Mrs. Lowey. That is right.

Mr. Kolbe. Why do not you go ahead first?

#### GAO REPORT

Mrs. Lowey. Thank you very much, Mr. Chairman, and welcome. I thank you both for your testimony.

First, regarding the GAO report. It identifies a number of specific challenges that the Global Fund has encountered in implementing HIV-treatment programs. These include the complexities of drug procurement, dosing regimens, patient monitoring, payment issues and procurement principles.

As you know, this is a complex challenge, made immensely more difficult by the lack of health infrastructure in many countries.

The president's plan also segregates \$300 million specifically for a mother-to-child initiative in 2004.

My first question, sir, is how do we intend to transition from our current program in which we spend between 10 and 15 percent on treatment to 55 percent for treatment by 2006? Does that mean we will be cutting back on prevention programs?

And maybe I will ask the other two, because I see I have to leave for a few minutes, also to you, sir, regarding the report.

How will the president's initiative address the lack of health infrastructure in Africa? And how do we intend to address the complexities of drug procurement and all the attendant issues?

And maybe we should begin with the first question. You have that one.

Mr. Gootnick. Well, I certainly would want to give Dr. Feachem the opportunity to answer those questions because I think those are truly questions for the fund.

What I can tell you in terms of GAO's assessment, the three points that you made are scaling up treatment, lack of health infrastructure and the complexity of drug procurement and administration.

And I would say, again, sticking with the analysis that GAO performed over the past year, the Global Fund uses its

technical-review panel as its means for determining that grant proposals submitted to the fund are either approved or not.

And that technical-review panel intends to apply principles that would tend to support projects that are capable along the lines that you have demonstrated.

So specifically, the components of technical-review-panel assessment include the technical soundness of the approach, the participatory nature of the proposal, the ability to monitor and evaluate the grant proposals downstream.

So these are the types of things that the fund endeavors to achieve through its grant-making process. The success of that endeavor will be seen over time.

Mrs. Lowey. Would you like to comment, Dr. Feachem?

Mr. Feachem. Well, very briefly. And thank you for the questions.

On the question of the balance between prevention and treatment, I obviously cannot comment on the bilateral initiative, but let me make a global comment and a Global Fund comment.

The scientific consensus today is very clear, which is that countries need a comprehensive approach to HIV/AIDS, with strong prevention and strong treatment.

The exact balance between those I think varies country by country, depending on the state of the epidemic.

So, for example, in India today prevention would loom very large and treatment would be a somewhat lower priority, but nonetheless important. Whereas in Malawi or Zimbabwe or Mozambique or Namibia, treatment is a huge priority, as is prevention. So the relativities are not standard across countries.

The Global Fund, of course, is driven by the proposals that it receives and that are technically screened, and our money today is committed substantially to treatment and to prevention.

So we start off with a balanced approach. We do not have to make a transition from 10 percent to 55 percent, as you mentioned. That is a challenge for the bilateral initiative.

On lack of health infrastructure in Africa, this is a very great challenge to all of us in the fight against these three pandemics, and I would just make three comments.

One is, it is indeed a challenge and we need to work in a coordinated way to strengthen the infrastructure.

Secondly, I think one of the important features of the Global Fund is that we invest in everybody's capacity, not just in the government's capacity. When we have these discussions about absorption capacity, we often tend to focus on weak government infrastructure, which does need to be strengthened.

But the Global Fund's commitment is to invest in anybody's capacity who is able to do more.

So, for example, in English-speaking Eastern and Southern Africa, something like 40 percent of all hospital beds are controlled by the Protestant or Catholic churches. We are investing in that capacity to expand treatment, not only the government's hospital infrastructure.

So that is an important feature.

And thirdly, just to clarify what I think you know, the Global Fund does invest in infrastructure. We do not just

invest in the drugs or the specific intervention.

Thirdly, on drug procurement, last October the board of the Global Fund, with the support of the United States delegation and other board constituencies, passed what I think is very farsighted policies on drug procurement, which the GAO report makes some reference to.

It is very interesting to me how the same parties who are failing to agree currently in the World Trade Organization agreed last October in the context of the Global Fund, and we have drug-procurement policies which jump over the current arguments that are bedeviling the Doha, post-Doha discussions at the WTO.

I think those are good policies and they represent a fair and transparent way of purchasing drugs of assured quality at the lowest price, through international competitive tendering, and I think that is the way we need to go.

It will not be a simple road in practice, and we will need to call on the assistance of international procurement agencies to help procurement in very small countries, poor countries, where the task of procuring complex drugs on a difficult and fast-moving international marketplace is really quite challenging.

Mrs. Lowey. Thank you very much, Mr. Chairman. And I do apologize, but I have to run across the hall for a few minutes.

Mr. Kolbe. If you can come back, we would love to have you.

Mrs. Lowey. Okay, thank you.

Mr. Kolbe. Thank you very much.

And Ms. Lowey, thank you for your questions.

Most of the questions I have are probably directed to Dr. Feachem, but I am going to start with one here for Dr. Gootnick, and there may be some along the way that you can fill in.

I was interested in the noting in the report here, and actually both of you can comment on any of these questions or respond to them.

I was interested in the report, looking at the figure of the amount that is paid to the World Bank in fees for their managing the account.

What role do they play, other than simply holding the funds and actually disbursing funds? Do they have any other role for this? I think it is a \$2 million fee that they are getting for this?

Mr. Gootnick. The World Bank will receive the majority of the pledges of the contributions to the fund.

Mr. Kolbe. Not all?

#### WORLD BANK

Mr. Gootnick. There are two avenues to contribute to the Global Fund, governments by-in-large are contributing through the World Bank. The private sector and individuals are contributing through the U.N. Foundation, but it is a small percentage of the funds that have come through this foundation.

Mr. Kolbe. Those funds, then, are not deposited with the World Bank, that latter category?

Mr. Gootnick. Those funds are then transferred to the World Bank.

Mr. Kolbe. So they are transferred. Ultimately they end up in the World Bank or for holding over for disbursing?

Mr. Gootnick. I would refer to Dr. Feachem.

Mr. Feachem. I would have to seek clarification on that.

Mr. Gootnick. The other role is for the World Bank. The vast majority, 99 percent of the funds, have come through the World Bank.

So the World Bank receives them, they hold them, they invest them, and they disburse them on the specific direction of the Global Fund's Secretariat.

Mr. Kolbe. Are there other examples of this, other funds like this, that the World Bank manages? Do you know enough about the operation of the World Bank to be able to tell us this? I may be getting a bit out of your area of expertise here.

Mr. Gootnick. Yes, my understanding is that the global environmental facility also is handled in the same fashion, but I have not looked too closely at this.

Mr. Kolbe. There is no interest received on the funds that are being held by the World Bank, is there? Oh, there is?

Mr. Gootnick. Actually the World Bank invests the funds. And those investments are meant to cover the rest of certain operational aspects of the Global Fund's activity.

Mr. Kolbe. And of the costs to the World Bank, I presume? Is that right, out of their costs, yes?

Mr. Feachem. If I may clarify that, Mr. Chairman, the World Bank holds the funds in a trustee account on behalf of the Global Fund. They attract a rate of interest, which is paid into the trustee account, so the Global Fund benefits from that interest. As a quite separate transaction, we pay the World Bank a fee.

Mr. Kolbe. It is a flat fee, then, it is not based on the amount of funds----

Mr. Feachem. Correct.

Mr. Kolbe [continuing]. That are deposited, it is a flat fee.

Mr. Feachem. It is a flat fee periodically renegotiated in the life of the volume of the work involved. It is not a percentage of the volume of funds held.

Mr. Kolbe. Correct, so is the board satisfied with the financial arrangement that you have with the World Bank?

Mr. Feachem. The matters of this kind come before the finance and audit committee of the board, which is currently considering this matter, because what we call the trustee agreement between the Global Fund and the World Bank is currently up for discussion and for setting of the new fee rates.

So the board will be considering this matter in June. My understanding is that there is some degree of disquiet in the board about the nature of this arrangement, but we will have to see how the discussions go at the next meeting.

Mr. Kolbe. Could you characterize that disquiet as being over the amount of the fees being paid? Or is it at least in part?

Mr. Feachem. In part the amount of fees being paid, and in part the perceived lack of transparency of the bank in declaring clearly exactly what its costs are in order to

undertake its work on our behalf.

Mr. Kolbe. I am very interested in seeing how that negotiation goes. We insist that your work be transparent, and it seems to me the World Bank's should also.

It bothers me, the idea that the World Bank would be making any kind of a profit off of, or money from managing an account which is paid into it by private organizations as well as governments to manage or to try to deal with a pandemic around the world.

It just bothers me if that is the case. And I will be interested in hearing more about how this particular--this is a small thing, I realize, but it is one that just leaped out from the page.

Mr. Feachem. And I must clarify, Mr. Chairman, that we have no evidence to suggest that the World Bank is making a profit. So I do not want to imply that we think that is the case.

Mr. Kolbe. But unfortunately, you do not have a good handle on what their costs are because it is not terribly transparent.

Dr. Feachem, you touched on this just a little bit, but as you know, the House of Representatives last week passed an HIV/AIDS authorization bill dealing with the bilateral, as well as additional money for the Global Fund.

I will not ask you to comment on the breakdown in that, although there is more in that than was requested by the President for the Global Fund. But I would ask you to comment on the issue about limiting the U.S. contribution to the fund to 33 percent, challenging other donors in the private sector to match with two-thirds of the funds, with 67 percent.

Is this kind of provision in the legislation helpful to you, or does it harm your efforts to get other countries to step up to the plate?

Mr. Feachem. It is helpful, and I think it is widely perceived as being reasonable and appropriate. Let me just give a very quick bit of background to that comment.

If we look at the U.S. proportion of the money in the bank so far, it is 25 percent. So we should not get too carried away by these numbers of 50 percent of Global Fund resources come from the United States.

#### DONOR PLEDGES

Mr. Kolbe. Pledges at this point are 50 percent, but the actual on-deposit is 25 percent?

Mr. Feachem. Pledges at this point are running a little under 50 percent, but close to 50 percent, but those are pledges----

Mr. Kolbe. Pledges from the United States?

Mr. Feachem. Pledges from the United States are running at a little under 50 percent of all pledges. But those are pledges out to the year 2008 and so give a particular view of relative contributions to the Global Fund.

And of course, many European nations are saying that is not the only figure we need to look at, because it just happens that because of the president's State of the Union address, a five-year commitment was made. Some European nations have not made those long-term commitments.

So if we look at the shortest-term figure we could look at,

which is money in the bank today, the U.S. stands at almost exactly 25 percent of cash in the bank.

Now, moving forward, I think it is extremely appropriate and helpful of the U.S. to maintain its financial leadership, its position as the largest donor, and to say that there is a clear concept of an appropriate share or a fair share, and we, the United States, are going to announce what we think that should be.

And maybe we think it is 33 percent, which provides a clear challenge to everybody else. Everybody else being all the other donor nations and all the private sector contributors to the Global Fund to come up with the other two-thirds.

So we believe that this is challenging. We believe it is helpful. And it certainly has become part of the currency of the discussion in the lead-up to the G-8 summit and the lead-up to the July 16 donor conference in Paris.

Mr. Kolbe. I have some questions on this. Maybe this is the appropriate time to ask about them. The funds, the actual funds, pledges versus the amount of cash on hand.

Do you have enough cash on hand, in the bank, World Bank fund, trustee fund, to go how far? To carry you how far?

Mr. Feachem. We are fully funded for our current commitments to round one and two. So our current situation is that we have committed ourselves to 155 programs in 92 countries for the first two years of those programs. Those are the legally binding agreements.

Mr. Kolbe. And those, when you say first two years, so it includes the funding for both of those years?

Mr. Feachem. Exactly.

Mr. Kolbe. Okay.

Mr. Feachem. And we are fully funded for that commitment to two years of 155 programs in 92 countries. We have left after that as Dr. Gootnick said, roughly 300 million.

So we are not fully financed for our expected round-three commitments. And as you know, round three closes at the end of May and the board will make decisions on it at its meeting in October.

We have a prediction of how big round three is going to be, based on experience so far. We are not fully funded, by any means, for round three or for rounds four and five, neither, as Dr. Gootnick pointed out, are we funded for years three, four and five of the first two rounds that we have already committed to for the first two years.

Mr. Kolbe. All right. Let me just run through those figures again. Round one was how much, in how many countries?

Mr. Feachem. If I could add round one and----

Mr. Kolbe. One and two together, that is what is confusing me, I guess.

Mr. Feachem. Round one and two together----

Mr. Kolbe. So a round is for one year or two years?

Mr. Feachem. No, sorry. Terminology. A round is a call for proposals reviewed by our technical review panel, approved by our board. Round one was approved in April, round two was approved in January 2003----

Mr. Kolbe. Each of them include funding for two years for the program.

Mr. Feachem. Exactly.

Mr. Kolbe. Okay.  
Mr. Feachem. Exactly.  
Mr. Kolbe. Okay.  
Mr. Feachem. And if you add those together----  
Mr. Kolbe. That is the 155 programs in 92 countries.  
Mr. Feachem. With two-year commitments worth \$1.5 billion.  
Mr. Kolbe. One point five.  
Mr. Feachem. And if you look at where those commitments fall through time, and the money that we have in the bank or are firmly pledged, we are covered for that.  
We are not covered for round three.  
Mr. Kolbe. And when is round three due?  
Mr. Feachem. A board decision in October.  
Mr. Kolbe. October? The proposals are in now?  
Mr. Feachem. End of May.  
Mr. Kolbe. End of this month.  
Mr. Feachem. End of this month.  
Mr. Kolbe. So you will be going through the technical review for the next several months?  
Mr. Feachem. July.  
Mr. Kolbe. And staff will be making recommendations to the board for October meeting.  
Mr. Feachem. Exactly.  
Mr. Kolbe. Based on what you are seeing out there, what do you expect the size of the requests to be, that might logically be, if you have funds available that you might make to the board?  
Mr. Feachem. Our current prediction, based on the volume that we believe is coming in, and the expectation that the Technical Review Panel will continue to reject 60 percent of all applications and accept only 40 percent of all applications, we are predicting----  
Mr. Kolbe. And did that number hold basically true for both rounds one and two?  
Mr. Feachem. It did. It is not a policy, it just fell out.  
Mr. Kolbe. No, I understand. And about 40 percent are being approved.  
Mr. Feachem. Exactly.  
Mr. Kolbe. Okay.  
Mr. Feachem. Could change through time, no certainty about that.  
Mr. Kolbe. Actually, countries could learn what is needed and what is required and the numbers could go up.  
Mr. Feachem. Exactly.

#### TECHNICAL REVIEW PANEL

Well, truly, countries are learning. Equally, the Technical Review Panel could raise the bar. It was clear that between round one and two the quality of applications was better in round two, but the acceptance rate was still the same.

So our impression was that the TRP raised the bar, and that is probably very healthy. They may raise the bar again.

Mr. Kolbe. I have a question on that, but go ahead and finish the point based on if it is roughly stays the same at 40 percent you are looking at what?

Mr. Feachem. We are looking at round-three commitments of

\$1.6 billion.

Mr. Kolbe. So only 20 percent of cash on hand for that?

Mr. Feachem. Precisely.

So that is the big refinancing requirement which all these calls for refinancing of the Global Fund that we will hear around the G-8 Summit in Evian, that is what is triggering this.

Now, the point is, the important point I must add that during June, we at the secretariat will be able to analyze in detail what has actually been proposed for round three.

By the end of May we have our closing date, so in June, even before our Technical Review Panel does its assessment, we will know the volume of applications, and we will be able to make before July 16 a better estimate of the likely size of round three.

Mr. Kolbe. Will there be instructions given to the Technical Review Panel about raising the bar if---

Mr. Feachem. No.

Mr. Kolbe. So you will not say, ``We are not going to have enough funds, raise the bar?''

Mr. Feachem. No. Well, firstly, the Technical Review Panel does not report to me. So I give it no instructions.

Mr. Kolbe. It reports to?

Mr. Feachem. It reports to the board.

Mr. Kolbe. Directly to the board?

Mr. Feachem. Directly to the board, and the board has resisted giving it instructions. The board gives it guidelines concerning how to conduct its procedures, but it is a truly autonomous body that reaches independent judgments about the quality of proposals.

Mr. Kolbe. And it does not prioritize those proposals, it simply---

Mr. Feachem. It puts them into four categories, two of which it recommends for funding, and two of which it recommends not for funding.

Category one is fund basically as is.

Category two is fund if certain questions that we have asked can be satisfactorily answered, and we the Technical Review Panel are the judge of that satisfactoriness.

Category three is substantial problems, come back to us at the next round.

And category four is let us not hear from you again, go away.

So that is how the TRP divides all proposals that it receives. The TRP is not charged with dealing with the problem of not enough money for category one and two.

That is a problem for the board to deal with.

Mr. Kolbe. Okay, well, that was my question.

If as you approach this October meeting, if you only could see that you had funds for--let me just pull a number out of the hat, this is purely hypothetical--but for \$1 billion and you have proposals of \$1.6 billion, the TRP does not really help you prioritize those. It does not help the board prioritize those.

I mean, because the questions might be answered by the time the October meeting comes around, is that correct? Between category two and one, I mean, you might get the answers and you



might be satisfied that----

Mr. Feachem. Well----

Mr. Kolbe. Let me back up. Does the TRP or the staff attempt to address those questions prior to the board considering them? The category two questions?

Mr. Feachem. Well, the secretariat does some work prior to the meeting of the board to fill in gaps that can obviously be filled in.

The main task of answering the category-two questions and deciding whether they were satisfactory answers or not is actually done post-board in the current arrangements.

So if those arrangements are not changed, what would happen is this: The end of May, all proposals are in. Secretariat screens for eligibility. We have some eligibility criteria, and some get knocked off the table because they are noneligible applications.

Eligible applications go to the TRP in July. The TRP makes judgments that are purely technical and contextual and does prioritize to the degree of category one and category two and then it draws a line and says category three, category four.

The matter of what we should do in October----

Mr. Kolbe. Yes.

Mr. Feachem [continuing]. If the board is presented with more category one and category two than we had----

Mr. Kolbe. And you tell them we only have enough funds right now to commit to a billion instead of \$1.6 billion. How do they go about making that decision?

Mr. Feachem. That is a question that is currently under discussion both in board committee, and will doubtless be discussed at the June board meeting concerning the ways in which the board might handle that situation in October if that situation does arise.

Mr. Kolbe. You have not had them make that decision yet?

Mr. Feachem. We have not yet had to make that decision.

Mr. Kolbe. In round one and two?

Mr. Feachem. Exactly.

Mr. Kolbe. These are questions that are just coming from all directions. I am trying to get them in some kind of order here. But I apologize if they are not.

You mentioned something about research. None of your grants are for research.

Mr. Feachem. The Global Fund's policy on research is that we are not a research-funding organization, and we do not receive research proposals.

We do not fund laboratory basic research of any kind, research leading towards new drugs and vaccines. I will come back to that in a second, if I may.

The research that we do fund, and indeed, we encourage, is operational research within the context of funded programs.

So we do say to our applicants, if you are looking for \$50 million from the Global Fund to launch a major new attack on malaria or HIV/AIDS, you better know what is going on. You better be measuring and monitoring and learning.

Mr. Kolbe. So measurement, and output, outcomes----

Mr. Feachem. Exactly.

Mr. Kolbe. That is what you are measuring. And that is the research----

Mr. Feachem. That is what we are----

Mr. Kolbe [continuing]. But very important research, I might add.

Mr. Feachem. Indeed, it is.

Mr. Kolbe. Extraordinarily important.

Mr. Feachem. And the other kind of research that will lead us toward a vaccine--microbicides, better drugs, et cetera; all urgently needed--we are not a financier of that, and have no intention to be so.

But we are an advocate for that, because we badly need those new tools.

And also, we are an incentivizer of that. It is very interesting to see the way in which the private sector with their big R&D machinery have recognized there is now substantial new purchasing power in the world, which helps to answer the question, ``If I discover it and bring it to the market, who is going to buy it?''

Now that is a big question in the R&D decisionmaking that goes on both in the biotech industry and in Big Pharma. The Global Fund is part of the answer to that question and is attracting attention from the industry.

Mr. Kolbe. I am going to come back in just a moment to some questions about the CCMs, which we will get Dr. Gootnick back into the picture here.

But I want to ask you just one on this research issue, leads me to one question, Dr. Feachem, that taking off your ATM hat for a moment and just talking as a researcher and a policy person.

When the HIV/AIDS virus was first identified in 1983, 1984? Many people predicted that within three to five years we would have a vaccine for it. And here we are, 20 years later and we do not. We have discovered it is much more complicated.

And a question to you just as a researcher in this field, is do you think--and it does relate to the Global Fund--we are ever realistically going to see this happen in our lifetimes, a vaccine?

And if not, then are we consigned to programs that deal with prevention and treatment and that is what we are going to have to focus on?

Mr. Feachem. I am a founder-board member and the current treasurer of the International AIDS Vaccine Initiative, and have been in my personal capacity a very strong advocate for increased research leading us towards an HIV vaccine.

I believe the answer to that question is that we will get an HIV vaccine that will be effective in prevention. But we may not get it for many years.

So I think we are faced with a research imperative to accelerate towards the day when we have a vaccine. Clearly, the day that we have a vaccine, the Global Fund will become a major purchaser of that vaccine.

And therefore, it is already an incentivizer of that R&D in the private sector. So we have a big commitment to the vaccine and to buy the vaccine when it becomes available. Will that be eight years, 10 years or 15 years? I have no idea. Will it come one day? Yes.

And when the vaccine does come, will we then want to slacken off or reduce our efforts in prevention and treatment?

Absolutely not. And there are many examples of diseases for which we do have vaccines, but it does not mean we do not do all of the other things we need to do.

Mr. Kolbe. Thank you for that answer.

Let me come back to the CCMs, which seem to be very much at the heart of many of the questions about the operation of the Global Fund.

And both of you can comment on this.

You said in your remarks that you would prefer to look at it as the glass being half full, not really half empty, because many of the CCMs are working well, indeed.

How would each of you describe from the work that you have done reviewing this? Maybe I will start with you, Dr. Gootnick.

What is the difference? What makes a good CCM, and what makes one that is not working so well?

Mr. Gootnick. Well, let me start with an informal comment. The GAO, unlike the Global Fund, cannot say the glass is half empty or the glass is half full. The GAO could simply say the glass is at 50 percent. [Laughter.]

Mr. Kolbe. Okay. Describe this 50 percent glass for me.

Mr. Gootnick. Well, while I could put a percentage on it, our work--again, recognizing that we offered you a snapshot in late 2002----

Mr. Kolbe. Right.

Mr. Gootnick [continuing]. And with that caveat, and with the caveat that we visited the four countries I mentioned. We also relied on fund documents, and we relied on other observers of the fund to be confident that our observations were credible.

But our concerns related to the level of communication, the participatory nature of CCMs, and we were left with the view that in some places--again, as of late 2002--some CCMs were functioning and were participatory, and in some situations they were not.

Now, we we also reviewed and observed over the course of our assessment that the Global Fund, having recognized this issue--this has been discussed at the board level--has begun to take some steps.

So that they have clarified who should participate in the CCMs, they have clarified what roles and responsibilities the CCM has. They have begun to conduct workshops to disseminate the information on how CCMs can effectively perform.

We have captured that in our report. But, again, we would not say it is half full or half empty. We would simply give you our best percentage.

Mr. Kolbe. Dr. Feachem, do you think that the report of the GAO was fair in their assessment of how the CCMs have operated so far?

And if so, would you then describe things you are doing to try to get the CCMs that are not working as well as they should or might be doing, get them functioning better?

Mr. Feachem. Yes. I think the snapshot that the GAO took at the end of 2002--would that be accurate?--was a very fair snapshot of where CCMs were then. I think CCMs today are a step ahead of that. CCMs are moving in the right direction.

I would be careful not to in any way overstate how well CCMs are working. In my view of CCMs today, and the evidence

that we get from our many interactions with CCMs, is that we have a spectrum, from CCMs that are working really very well, to CCMs that are working very badly, indeed.

I think we are moving in the right direction, and they are strengthening, and they are strengthening because they are learning to do their work. There is tremendous in-country pressure on them to move in the direction that we wish them to move in.

So the movement is always in the right direction. But there is a lot more to be done.

You asked, what are the specific things that are wrong with CCMs when they are not good. I would mention three. There are doubtless others.

One is government capture. That is clearly a problem with some CCMs.

Often associated with that is infrequent meetings, which are untransparent. They are not announced, their discussions are not open to scrutiny, no minutes are published, et cetera. So a non-transparent process.

There are probably a few CCMs that have hardly ever met, where it is more of a paper exercise than a real meeting of people to debate national policies and priorities.

What do we do about all that?

Well, I think the first thing to say is that several different actors have to do something about that. It is not just for me and the secretariat to do something about that. It is very much for our partners in-country, USAID for example, to help in that effort.

The NGOs active and influential in that country have in many ways a bigger influence than we do on how a particular CCM moves forward. And we are seeing that influence apply.

The specific things that we can do are, firstly, issue guidelines and clear specifications about CCM best practice and good practice. And the board will debate and agree on those in its upcoming meeting first week of June.

So we will be able to publicize the Global Fund view of what a CCM should be like. That will be helpful.

I would like to go further and set minimum standards for CCMs. The board at the moment is not comfortable with that, but it is my personal preference, and that is well known. So that we say, ``Unless your CCM meets a required minimum standard, we will simply reject your application. It will not even go to the TRP.''

Now, that is a step too far for the board consensus right now. We shall have to see in the future.

Thirdly, we can exchange information among CCMs.

And it is very interesting that when the Global Fund holds multi-country meetings as we have been doing Pretoria, in Dakar, Senegal and Dhaka, Bangladesh, in Manila, in other places. In Kiev.

When we hold these multi-country meetings, representatives of CCMs come, and they talk to each other and they share information across countries. This appears to be influential.

So in various ways I think we must keep a light shining on CCMs and make it clear when we think they are not, you know, living up to the expectations that we have for them.

Mr. Kolbe. Describe to me the interaction, then, between

the CCM and the proposal at the technical review board and the board?

If you were aware that a CCM is an ineffective CCM, nonetheless, proposals come in from that country, how does that affect either the technical review process or the board's decision to fund a project in that country?

Mr. Feachem. Well, I think that is an important question, and it is an evolving subject today.

Mr. Kolbe. The add-on question to that is, is it permissible for proposals to come in from outside CCM under those circumstances?

Mr. Feachem. Right. Well, if I could take the two parts of that.

Today the situation is that we do have a very small number of minimum requirements, so the proposals must come from a CCM. We must be told what the membership of that CCM is. And those proposals must be signed both by the chairman of the CCM, whoever that happens to be, and also by a civil-society representative on the CCM.

So we do have requirements that encourage the kind of inclusiveness and transparency in CCMs that we seek.

Your question of, if a proposal comes from a CCM, which meets those very minimal minimum standards and passes the TRP and comes to the board, but nonetheless, we know from other information that it is far from an ideal CCM, is there any consequence at the moment for that knowledge? No, at the moment there is not.

I think it is the kind of domain of getting firmer with CCM expectations that the board will continue to explore. But at the moment there is no direct consequence to that.

Mr. Kolbe. So how do you incentivize the country to improve its CCM?

Mr. Feachem. Through a variety of means. As far as the secretariat is concerned, through clearly advertising what our expectation is.

The step beyond that would be making those expectations a requirement. And as I explained a moment ago, the board is not yet comfortable with that step.

But at the country level, the fact that we publicize what we expect gives tremendous ammunition for the private sector and the faith-based organizations and the NGOs, because they then go to the CCM and say, ``Not you should reform because we say so,'' but they say, ``You should reform because here are the guidelines published by the Global Fund and they say so.''

So we are clearly getting feedback from NGOs in-country. But the clearer we are about what we expect, the easier it is for them in-country to press for the changes necessary.

And again, I do have to say that changes are occurring. I mean, there are CCMs that I visited and that my staff have visited where the message back is, ``I went two months ago, it was like this, I go today, it was like that.''

There is significant movement as a result of the processes we are talking about.

The question of can an applicant apply around the side of a CCM or without a CCM endorsement, not through a CCM, the answer to that at the moment is, ``Yes, in defined special circumstances,''

which are made very public.

And I probably will not exactly remember what they are, but they are something like, ``There is not a CCM, so I am applying because my country does not have one.' ' That is an allowable application.

The CCM has illegitimately disallowed or blocked my proposal and I can demonstrate that. Well, demonstrate it. We will listen seriously for that.

And there may be a third ground that I am not exactly recalling, which does leave the door open for an application not through a CCM.

Mr. Kolbe. Are there some grants that fall into those categories?

Mr. Feachem. There are a small number. Again, I would have to take advice or correspond with you about exactly what the cases are. There are a very small number, yes.

And in fact, the South Africa case was interesting, because as you recall, and if you followed the great debates in South Africa, KwaZulu-Natal applied not through the CCM, but----

Mr. Kolbe. That is right.

Mr. Feachem. But at the time it applied, there was not a functioning CCM. And we have then had a year of sometimes difficult negotiations to get to the point we are now at, which is the South African CCM has now fully approved the KwaZulu-Natal proposal. And we are about to sign the grant agreement. And that proposal does contain substantial anti-retroviral therapy.

Mr. Kolbe. Conversely, though, you have talked about some of the CCMs and the improvements that have been made. Are there any that are backsliding?

Mr. Feachem. Not that I am aware of. I mean, the pressures on CCMs are to push them in the right direction. I am aware of no CCM that has taken a step backward.

Mr. Kolbe. I am tempted to ask about some specifics, but I do not know how comfortable you would be talking about specific countries, and maybe we will just leave that alone.

Are there any examples of where grant proposals have been turned down because you thought the CCM itself was totally inadequate? Just did not trust the proposal coming through a CCM?

Mr. Feachem. Well, I think the way that manifests itself is in--of course the technical review panel, you know, rejects 60 percent, and they have many reasons----

Mr. Kolbe. I guess I am thinking at the board level.

Mr. Feachem. So far, and we only have two rounds of experience on this. The board has accepted en masse, as a bloc, the recommendations of the technical review panel.

Mr. Kolbe. How have they been done in a bloc? You do not go through them and vote on them one by one.

Mr. Feachem. No. The board has resisted that for several reasons. If the board got into the business of debating every proposal, it would meet for weeks and it would reproduce the work of the technical review panel.

So a key element in our design is that the board trusts the judgments of the technical review panel.

It is very interesting to remember Secretary Thompson's comment about the U.S. parallel review, the conclusion of which was that the TRP got it pretty much right.

Now other countries do the same. We know that some of our other donor countries are also scrutinizing the proposals and seeing what conclusions they would come to. And the feedback from that has been they would come to not the identical conclusions, obviously, to the TRP, but very, very similar conclusions.

But can I come to your question about consequences? After a board approval, there can be and there have been in several cases some very tough negotiations leading to the Global Fund saying no. Let me give you an example of that.

If proposal A is accepted by the board, the Global Fund then goes to the country, talks to the CCM and says, ``Now, who is the principal recipient; who is the legal entity with whom we will sign the legally binding grant agreement and to whom will the check go?''

And there have been several cases where the CCM has said, ``This is the organization. This is our appointed body to receive the money and do the work.''

And we have done, as we do in all cases, an assessment of that principal recipient. And in some cases we have said, ``No, that is not a trustworthy or adequate principal recipient and we will not agree with you, the CCM, that they should be the holders of these funds and responsible for this work.''

And then it is up to the CCM to make another proposal, which again we have to assess, and if we find it wanting we will clearly say so.

Mr. Kolbe. Thank you. We only have just about three or four more minutes before we have to vacate this room for the next hearing. Mr. Flickner just reminded me of one specific country I do have to ask about, and that is the CCM in North Korea?

Would it be safe to say that was one that was captured by government?

Mr. Feachem. I think the CCM in North Korea should be the dictionary definition of an oxymoron. [Laughter.]

Mr. Kolbe. But nonetheless you did actually have a proposal. You did approve a proposal, did you not from North Korea?

Mr. Feachem. The board approved a proposal from North Korea.

Mr. Kolbe. And nothing happened?

Mr. Feachem. No, we are in protracted discussions.

Mr. Kolbe. Discussions. There is somebody to have a discussion with on this?

Mr. Feachem. There is, both----

Mr. Kolbe. Health ministry?

Mr. Feachem [continuing]. Both the health ministry and our international partners in North Korea. Because UNDP maintains an office there, and WHO maintains an office there.

But those discussions are still ongoing.

Mr. Kolbe. Okay, so no cash has been disbursed?

Mr. Feachem. Certainly not. Nor has a grant agreement been signed.

Mr. Kolbe. Signed. Okay.

My last area is to turn to the LFA, the Local Fund Agency. You did say earlier that there was some concern that some places had felt that concern.

I think Dr. Gootnick, you said this, that the money was

being subtracted from the, or taken out of the grant in order to fund the LFA, the monitoring. That is not correct, is it?

Mr. Feachem. No, that is absolutely not correct. The LFA is contracted by the Global Fund in Geneva----

Mr. Kolbe. And that is part of your overhead?

Mr. Feachem. Absolutely. Absolutely. The LFA works for us, not for the recipient. And it is contracted by us to be our eyes and ears in the country.

Mr. Kolbe. But nonetheless, I think there is this perception, apparently, an incorrect perception in some countries that somehow it is coming out of their grant.

Mr. Feachem. Well, that is absolutely not the case.

Mr. Kolbe. Thank you, I am glad you clarified that. Somehow we need to apparently need to communicate that, I think. And in the report, that says one of the things that some countries have that view, or some recipients have the view that that is the case, that that is being done.

I believe you have contracted with four different organizations to be LFAs?

Mr. Feachem. So far.

Mr. Kolbe. Yes, so far. Do you do it on a country-by-country basis, or do you contract with the four, and then you say, ``You take Haiti and you take Botswana?'' Or do you go to Botswana and see who might be a LFA there?

Mr. Feachem. Up to now, we have the four. And with the four, it is a country-by-country choice.

But we also have an umbrella contract and understanding with the global entity. Because it happens that at the moment, the four all have multi-country capacity.

So we have an umbrella contract with the headquarters, which helps us then negotiate country-by-country contracts. The country-by-country choices are country by country. So we go to Botswana and we say, ``Which of the four of you will do the best job at hand?

Mr. Kolbe. In all of the 92 countries then that you currently have grants operating in, one of those four then is functioning in that country?

Mr. Feachem. Either is or is about to be.

Mr. Kolbe. Okay, so in some cases, they are actually putting their presence in there as a result of the----

Mr. Feachem. No, no. We, we----

Mr. Kolbe [continuing]. Pull the Fund?

Mr. Feachem [continuing]. No, we do not favor that at all. The four that we are dealing with--when we contract with LFA in country X, what we like to see and expect, is an existing presence in country X.

Mr. Kolbe. I think that just contradicts what you just told me. You said in some they are about to have their presence there, you said.

Mr. Feachem. No, sorry. I am sorry, I miscommunicated. In the 92 countries, for most of them, we have a contract with an LFA in that country.

Mr. Kolbe. It is already pre-existing. It has been there. They have been in the country.

Mr. Feachem. They have been in. For a few countries, we simply have not yet negotiated it. We have not yet made our choice.



Mr. Kolbe. Oh, okay.

Mr. Feachem. Not that they have not yet arrived there, because we do not like an LFA saying to us, ``If you contract for me in Malawi, I will set up an office in Malawi.'' That does not sound right to us.

We want them to be in Malawi, with a track record in that country and know the private and public sectors----

Mr. Kolbe. That raises an interesting question. Will you sign a contract with the recipient for a grant even if you do not yet have a LFA on the----

Mr. Feachem. No, we first----

Mr. Kolbe. You first have the LFA.

Mr. Feachem. We first have the LFA. The LFA has to assess the principle recipient. And then we sign the grant agreement.

The final comment on this I must make for the record, is that we have just launched an international tender for the roll of LFA.

So the situation you find today of the four organizations working for us in many countries, and some very good experience coming from that, that is not sufficiently transparent for our future or sufficiently competitive in allowing others to enter into this role.

So we have just launched an international competitive tender which says, ``This is the LFA role. Compete with each other to play this role for us in countries where you think you have special capacity and advantage.''

And out of that will come before round three is launched in October, a selection of a menu of LFAs, which will be broader than four. I do not know how many it will be. But it will extend the range of organizations that play that role.

Mr. Kolbe. Dr. Feachem, what is your percentage of Global Fund budget that is spent on administration and overhead?

And Dr. Gootnick, does that figure correspond with what you understand it to be? What would you tell us it is?

Mr. Feachem. I would say that today the total cost of doing business is about 5 percent of our commitment on a year-on-year basis.

And that 5 percent is roughly made up of 2 percent Geneva secretariat, 2 percent LFA contracts, which are in-country, and 1 percent are contracts with the World Bank as our trustee and the World Health Organization as our main administrator.

Through time, as economies of scale are increasingly realized and our rate of commitment and disbursement rises, I would expect that 5 percent figure to fall.

Mr. Kolbe. Dr. Gootnick. Do you have any----

Mr. Gootnick. By in large, I concur with that.

Mr. Kolbe. Do you have any concerns about the figures?

Mr. Gootnick. Well, that figure is based on a goal of the fund to disburse \$750 million this year. If they do that in 2003, then Dr. Feachem's figures are accurate.

Mr. Kolbe. And that was really about going to be my final question.

How much of the money that has been appropriated and committed and is in the hands of the Global Fund and has been obligated through your grants, do you actually expect to be in-country this year?

Mr. Feachem. We are today revising in Geneva our

projections that would answer that question.

As of today, \$21 million is out of the door and received by countries. And the pace of the disbursement is rapidly accelerating. We are putting together our best estimate of where we will be by the end of this calendar year or a year from now. And I will share those numbers with you.

The reason that it is \$21 million today is partly that as you know, the disbursement process only started in January of this year.

And secondly, we disburse quarterly. And the first disbursements are rather cautious. So they are not always a quarter of the year one budget. They are often more modest than that, frequently, at the request of the recipient who says to us, ``Now, wait a moment. Do not send us a quarter of the year-one budget because we have some preparatory and start-up investments to make.

So give us a smaller sum and then when the second, when the first quarter is extinguished and we come back to you for the second quarter disbursement, we are going to be asking for more because we will be able to show you that we have made the preparatory investment.''

Mr. Kolbe. I think I would like to be, and I think my staff would very much appreciate, being kept apprised of the rate of disbursement of funds.

Mr. Feachem. We will.

Mr. Kolbe. Granted, I understand that it is a figure that goes like this.

Mr. Feachem. Yes.

Mr. Kolbe. But nonetheless, \$1.5 billion is what we have committed.

Five months into the fiscal year, the calendar year, which is also your fiscal year, \$21 million out the door suggests that you have a lot to do for the rest of this year.

Mr. Feachem. And yes, just one caveat on that. When we talk about \$1.5 billion of commitment over two years----

Mr. Kolbe. Two years.

Mr. Feachem [continuing]. It is from the date of signing of the grant agreement.

Grant agreements are being signed now.

Mr. Kolbe. Okay.

Mr. Feachem. I mean, 40 or 50 have been signed, but we have many more to sign. So the clock starts ticking when I sign the grant agreement, and it is the two years from that date that is the one to watch.

Mr. Kolbe. I want to thank both of you for your patience in my questions here, which I hope were not totally off the wall here. But it helps me to understand this a great deal.

And I thank you very much, Dr. Feachem, for the work that you and your agency is doing. And Dr. Gootnick, I really appreciate the work that the GAO has done.

Often some of the reports of GAO kind of get forgotten. But I think this is one that is going to be read a lot here by a lot of people that have a great interest in this, and I think will be used as a benchmark as we come back to the Fund in the future.

And undoubtedly, we are going to want the GAO to do an assessment of this, an update of this in the future.

We thank you both very much for your participation here today, as well as Secretary Thompson earlier. I think this hearing has been exceptionally good.

Thank you very much. The subcommittee stands adjourned.

Wednesday, May 21, 2003.

# MILLENNIUM CHALLENGE CORPORATION

## WITNESSES

ALAN LARSON, UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS AND AGRICULTURE AFFAIRS

ANDREW NATSIOS' ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

## Chairman Kolbe's Opening Statement

Mr. Kolbe. The Subcommittee on Foreign Operations will come to order. Our Ranking Member is not here yet. She is on her way, we believe, but we will begin because Administrator for USAID, Andrew Natsios, has to leave to catch a flight overseas, has to leave here at 2:45, which gives us exactly 40 minutes from now. I at least want to get the statements in and a couple of questions for Administrator Natsios before he has to go.

So we will take Ms. Lowey's opening statement after she arrives here, and I will begin with mine, and then, of course, take the statements from Mr. Larson and Mr. Natsios and then go to questions, take Ms. Lowey's statements when she gets here.

Today the subcommittee is holding a special hearing devoted solely to the consideration of the proposed Millennium Challenge Account, or, as it is known, the MCA. The MCA has, of course, been discussed in other hearings that we have had, but this is an opportunity for us to go beyond the previous considerations, discussions of country eligibility, to explore in a deeper way this new paradigm for foreign assistance.

We have two witnesses today. I have asked Under Secretary of State Larson to focus his testimony on the mechanics of how the Millennium Challenge Corporation will actually work, particularly its organizational structures. Then we will receive testimony from USAID Administrator Natsios on what he views as the role of USAID once the Millennium Challenge Corporation is up and running.

Together we think these witnesses should be able to respond to many of the serious issues that have been raised in prior hearings, though peripheral to the discussion of that hearing, questions with regard to the \$1.3 billion request that is in the administration's budget proposal for the proposed Millennium Challenge Account to support a new agency, the Millennium Challenge Corporation, the MCC.

Let me just tell you how I view the situation that faces this subcommittee. A number of agencies working in domestic policy in the Department of Defense are rapidly expanding development-type activity overseas, filling the vacuum left by State and USAID inaction or ineptness. The State Department and the International Affairs offices at the Treasury Department have traditionally set policy. Yet both are increasingly seeking to supplant USAID in the delivery of bilateral economic

assistance.

With the establishment of the MCA, it is hoped that USAID will better manage development and humanitarian programs, working under a more focused mandate. Meanwhile, the State and Treasury Departments can return to what they are best equipped to do--to help the President set international policies and mandates.

Neither USAID nor the Millennium Challenge Corporation can succeed as operational arms of our government unless they have adequate autonomy to effectively conduct their day-to-day operations.

As we attempt to translate the vision of the MCA into programmatic reality, we will have to overcome several challenges that have received little attention until now. How we, Congress and the administration, respond to these challenges will determine whether the MCA is sustainable over time.

Key challenges that I see and want to address today are these: how will we draft the legislation to implement the MCA; relations of the MCA or MCC with other U.S. Government agencies; and the Millennium Challenge Corporation's relationship with Congress. In each instance, there will be a focus on MCA performance and evaluation to determine whether better results are achieved.

When it comes to planning and implementation, the MCC is supposed to respond to the needs of the qualifying recipient country. It seeks to avoid traditional AID preferences, whether it is the administration's view of what is driven by diplomatic or security needs or Congressionally-driven earmarks for geographic regions or sectors for development assistance. That is the first challenge.

Unlike attempts at nation building from near ground zero, as we are seeing in Afghanistan or Iraq, the MCA would be nation reinforcing. The MCA would not work around weak or corrupt governments by buying into the hodgepodge of small projects undertaken by nongovernmental organizations. Instead, the MCA contract would represent a partnership between nation states, operating in a transparent manner, in real time, with realizable expectations about results, and with participation of civil society.

The second challenge relates to unrelenting bureaucratic turf battles over the control of development assistance. I put that as bluntly as I can. The two-dozen-odd accounts in our subcommittee appropriations are entrenched in processes, in defenses, and traditions that collectively may well make them incapable of implementing the MCA vision. If we are to appropriate large sums for development assistance that is premised on an effective political economy, innovation, local country ownership, while largely setting aside consideration of strategic or diplomatic necessity or Congressional whims, then it is essential that we look behind existing mechanisms for new ways to deliver foreign assistance.

We need to better understand who does what, when, where, when and for how long, in U.S. foreign assistance programs. The proposal for MCA, it seems to me, is definitely a step in the right direction, or could be a step in the right direction if done right. It would create a public corporation that operates

with a very lasered focus on countries who have embraced policies that actually reduce poverty through economic growth and investment in people. Incidentally, this morning, as you may know, the Senate authorizing committee rejected this approach.

Let me use an extensive quote to make my point. You can try and guess who these words are from, and I quote here:

``for no objective supporter of foreign aid can be satisfied with the existing program--actually a multiplicity of programs. Bureaucratically fragmented, awkward and slow, its administration is diffused over haphazard and irrational structure, covering at least four departments and several other agencies. The program is based on a series of legislative measures and administrative procedures conceived at different times and for different purposes, many of them now obsolete, inconsistent and unduly rigid, and thus unsuited for our present needs and purposes. Its weaknesses have begun to undermine confidence in our effort both here and abroad.''

You might think that was Secretary Powell last week, or you might think it was President Bush, but actually it was a statement by President Kennedy regarding the creation of USAID back in the early 1960s.

Once again, we find ourselves in a management morass for international programs. It has been a decade since the Cold War and 20 months since September 11. Nevertheless, we are still struggling to figure out how to deliver foreign assistance in a manner that is meaningful, accountable, and makes them productive units of foreign policy.

So the third challenge relates to the management of relations between the executive and the legislative branches. If the MCA model is to be sustainable, it needs to withstand the rhythm of annual budget pressures inherent in the interactions between the Congress and the executive branch.

The President is asking for an unprecedented amount of flexibility for the MCA. Congress needs to be confident that the MCA appropriations support publicly acceptable objectives, implemented in ways that are accountable to U.S. taxpayers and focused on achieving results intended by Congress working in concert with the President. Everyone involved in the process must recognize that the MCA requires greater self-discipline regarding the allocation of foreign assistance. This applies to policy-makers in the Congress and the executive branch as well as, of course, citizen advocates.

As we move to support, as I hope we will, the MCA, both branches must give the MCA political space to prove itself without directives for specific sectors or countries.

Finally, we need to recast our expectations for development assistance. In the long term, we need to define success as the success of our MCA partners, not how much money is appropriated in our annual appropriations bill.

With that, let me call on Ms. Lowey for her opening remarks.

#### Mrs. Lowey's Opening Statement

Mrs. Lowey. Thank you, Mr. Chairman, and I welcome our witnesses this afternoon to our hearing on the President's

proposed Millennium Challenge Account. I am pleased that we have the opportunity to continue our dialogue on the MCA proposal before Congress, and I hope it will be a productive discussion. I met recently with Mr. Larson on this issue and have used the occasion of earlier hearings this year to express my views on this proposal.

I will start today by making it clear that I do not oppose the concept of a Millennium Challenge Account, and I think I have made that clear to many of you in this room. Too often in this town, constructive criticism is taken out of context and misconstrued as fundamental opposition. Despite my support for the fundamentals of the MCA, however, there are some very serious ambiguities with this proposal that have to be cleared up before I will support providing significant funding for it in fiscal year 2004.

I have carefully reviewed the recent remarks of Chairman Kolbe on the MCA and find myself in agreement with much of what he said. Before getting to the proposal itself, I would like to point out several things. The MCA proposal is not one with which the majority of Americans or even the majority of Members of Congress are familiar. So the debate about MCA centering around performance indicators, eligibility criteria, and oversight is occurring largely in a vacuum with a limited number of lawmakers and Washington-based foreign policy wonks discussing the details.

Those who are participating in this debate have made two erroneous assumptions: first, that there is money available to fund the MCA simply because it was included in the President's budget; and second, that the resources devoted to it will be additive to current foreign aid programs. The fundamental questions--can we afford the MCA, given other budget realities, and is this the first step toward a dissolution of our primary foreign aid delivery mechanism, USAID--are not being asked.

As a longtime advocate for increases in foreign assistance, with a firm conviction that these expenditures are in the security interests of the United States, I have to express regret that the realities that will likely be presented to the committee in the 302(b) allocation process will force substantial cuts in the President's proposed budget for foreign assistance. The proposal to create the Millennium Challenge Corporation will suffer in this process for several reasons, and I would like to highlight three:

First, the proposal maximizes executive branch control of resources to the exclusion of the Congress. Two, the insistence on creating a new corporation to implement this proposal will mean that it will not be in a position to spend funds responsibly until at least 9 months into fiscal year 2004, if then. Three, I am convinced that this is the beginning of an effort to do away with the Agency for International Development.

Essentially the President has asked Congress to appropriate \$1.3 billion to a concept. The legislative proposal before us for MCA contemplates no role for Congress beyond providing the funding. Why should I support a process that will give virtually all the new resources in the foreign aid budget, to a yet-to-be-formed independent corporation to be run in the shadow of OMB, largely independent of congressional oversight?

I am not encouraged, frankly, by the administration's track record of undermining congressional oversight with respect to foreign aid. I know my chairman has expressed his support for an independent entity, to get away from entrenched processes, incentives, and traditions. And I must admit I agree that this may be necessary, and I am in favor of creativity and innovation and trying new approaches in appropriating foreign aid. And I also can agree with the concept that we must step back from existing AID mechanisms to foster innovation and country ownership. I do not, however, agree that this should translate into a new independent entity with a structure that largely shuts out our development professionals.

One of the strengths of our foreign aid program is the skilled professionals on the ground providing oversight in countries around the world. Yet I have not seen any concrete oversight plans for MCA funding. The White House has insisted on preserving the independent corporation aspect of its proposal and, to my knowledge, we have absolutely no information, at least I don't, other than the structure of the Board about how this will be constituted, how many people will be involved, what contracting and auditing procedures will be put in place, et cetera.

Under the best of circumstances, it will begin to function, as I mentioned, in October of this year, which could translate into a year's delay in getting funding to eligible countries. It cannot be done any faster, as I see it, to be done responsibly.

What is the rationale, frankly, for appropriating so much money to this program which will take so long to get started up when there are so many immediate needs? And I don't have to cite them here. We all know them. It is no secret that the U.S. Agency for International Development is undergoing a personnel crisis at its senior levels. The reasons for this are varied, but the continuous criticism and absence of confidence in the agency's capabilities coming from the White House, OMB, DOD, Treasury, and the State Department in my judgment have exacerbated the crisis. The numerous initiatives we have seen in the 2004 request, though, contemplating new administrative structures, illustrate vividly a lack of appreciation and reveal a starkly naive view of what it takes to achieve sustainable development.

It seems to be a prevailing view at senior levels of the administration that there are as yet undiscovered people who are capable of stepping in to immediately put development dollars to work. In other words, they are going to find people from somewhere who have not been involved in sustainable development that are going to be doing a really terrific job. Well, from my experience, the painful reality is that it does not work that way in the poor countries of the world. Our development policies and goals should not be based on the biases of unaccountable OMB officials, and before we let USAID wither on the vine and lose the unique capacity it has to work effectively in poor countries of the world, I believe we should think twice.

Despite its faults--and I don't deny it has faults--USAID remains the best and most effective entity the world has to get this difficult job done. If it is broken fix it, but do not

throw it out.

I should apologize, frankly, for using the bulk of my time to talk about process issues. However, I do feel that we are at a crossroads with the fiscal year 2004 proposals before us, and, as I have indicated in prior hearings, virtually the entire \$2.6 billion dollar increase in the foreign aid budget would go to new initiatives, most prominently the MCA. Other development accounts are straight-lined or cut. We have major cuts proposed in a number of countries such as Russia, Ukraine, Armenia, East Timor, and South Africa that prematurely begin a graduation process.

This year's budget marks the beginning of a process to corporatize foreign aid into the new top-down bureaucracies to centralize control of resources with a small group of White House and OMB officials and to remove Congress' ability to direct AID dollars to specific purposes or countries.

I want to work with the administration, and I always work with my distinguished Chair for whom I have absolute respect. However, if the administration does not reach out--and I must say, Mr. Larson did come in about 2 weeks ago and I appreciate that--if the administration does not reach out and work cooperatively with the committee and Congress as a whole, the long-sought consensus to increase foreign aid resources will dissolve into chaos and finger pointing.

And just in conclusion I want to say, and for those of you with whom I have worked, I think foreign aid is too important and we have to make sure there is a consensus, that we understand in the Congress how it is going to work, how it is going to be delivered, and we have to have confidence that the procedure will work smoothly and effectively.

And I thank you, Mr. Chairman.

Mr. Kolbe. Thank you very much, Ms. Lowey.

Well, we have about 23 minutes before Mr. Natsios has to leave. We are going to begin, though, with Mr. Larson's opening statement, then Mr. Natsios's. We will try and take some questions for Mr. Natsios before he goes. As always, the full statements will be placed in the record. So if you would like to abbreviate the statements, that will get us to questions quicker.

#### Mr. Larson's Opening Statement

Mr. Larson. Mr. Chairman, Congresswoman Lowey, and distinguished members of the subcommittee, thank you very much for holding this hearing and I appreciate the opportunity to continue our efforts to work with the Congress.

I appreciate the spirit of the hearing. Within the administration, we have worked very hard, crossing a lot of the bureaucratic glitches that you mentioned, Mr. Chairman, to work together for a year to come up with this proposal. We think that the MCA will target countries that are governing justly, thus investing in the health and education of their own citizens and encouraging economic freedom, and by concentrating on those countries that we can produce better developmental outcomes.

It really, sir, as you said in your opening statement, it is a program that is intended to operate with a laser focus on



countries that are pursuing good policies and promoting growth and poverty alleviation.

We do think that we can through this program establish a good working partnership with countries who themselves will be involving their citizens in identifying development priorities, that the proposals for activities should come from the countries themselves.

We imagine having business-like contracts with countries. We will want to invest taxpayer resources only in well-implemented programs that have clear objectives and built-in performance benchmarks.

We have proposed and we believe very strongly that the MCA should be administered by a separate corporation that has a very focused mission. The legislation has called for a lean Millennium Challenge Corporation. We have talked about 100 people or fewer that would be headed by a Chief Executive Officer, nominated by the President, confirmed by the Senate, and who would be accountable to the Congress. The CEO would report to a board of directors that would be chaired by the Secretary of State, and I can say from numerous conversations with the Secretary that he is totally committed to the idea of accountability to the Congress for how this program is managed.

We see the MCA as complementing, not replacing, other assistance programs. President Bush has sought to expand other assistance programs, including those that provide famine relief, that combat HIV/AIDS, or help strategic partners, and we believe very firmly that the MCA will not come at the expense of USAID.

We want the MCA to have a strict, transparent country selection process. We have identified publicly available indicators that will help inform that selection process. But at the end of the day, the Board would review that information and the Board would make final recommendations to the President. Again, the Secretary of State is firmly committed to the idea that this program should focus on developmental outcomes.

We propose that the MCA would focus on the poorest countries. In the first year we propose that only the world's 74 poorest countries, those that have a per capita income under \$1,435, and that are eligible for the soft window of the World Bank, would be considered for the program. We expect these countries to set their own priorities and identify the most important hurdles to development based on their poverty reduction strategies or other development strategies that they have. We would want their proposals to be vetted within their societies with NGOs and business, and when the contracts are concluded, we would imagine them being published on the Web because we want total transparency in this program.

We believe that the proposals should have a plan and a timetable for achieving objectives--how the results are going to be achieved--and a plan for ensuring financial accountability, which I know is one of the points, Congresswoman, that you have just raised.

We believe that it will be very important for these proposals to be reviewed thoroughly, including by outside experts, and I think there are many good ideas for how to achieve that. We do want the corporation to have a clean, flexible legislative mandate. We do not think we can be

effective in responding to developing country priorities if they are subject to recall or regional or country earmarks. We don't think that we will be able to attract the best people within government or outside of government, and we would like to reach out to the NGOs and others to get personnel, unless the MCA has a flexible personnel authority. And to be lean and efficient, it is going to have to be able to contract flexibly for services.

I appreciate very much the strong focus of the opening statements on achieving development outcomes. I began my involvement with developing countries as a schoolteacher in Kenya. I have served in Sierra Leone, Zaire and Jamaica, and helped run small programs. I am convinced after working on these issues for a long time that this proposal and initiative is the best opportunity that we have had to really do something important and new in the area of development assistance; that it is a good blend of compassion, but at the same time an insistence on results; that it is a very important initiative for us to be able to pursue at a time when we are fighting terrorism because it shows that we are also fighting for the values that other countries look to us to uphold.

We want to work with the Congress. We certainly urge your strong support for the Millennium Challenge Account of 2003, but we also pledge our support to work with you to make that a reality.

Mr. Kolbe. Thank you.

[The information follows:]

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Mr. Kolbe. Mr. Natsios.

Mr. Natsios, Opening Statement

Mr. Natsios. Thank you, Mr. Chairman and members of the committee for holding this hearing on the President's Millennium Challenge Account. We appreciate the Chairman's active leadership in support of the MCA, beginning with your trip to Monterey last year.

I have longer testimony which I would like to leave for the record and then reduce my remarks.

Mr. Kolbe. Your full testimony will be placed in the record.

Mr. Natsios. USAID will reorient its assistance programs to take into account the principles driving the MCA, so it will not just be the MCA that are driven by the President's new vision.

Given our strong interests in supporting and complementing the Millennium Challenge Corporation, USAID has now put in place, actually 6 months ago, a team actively reviewing its existing portfolio to figure out how best to organize itself and to support the mission and the operations of the MCA. In addition to providing support that may be needed in MCC countries, we believe that USAID should focus activities on four broad categories of countries.

The first are countries that just barely missed getting in the MCA. If you look at the 16 indicators, you can tell there

are a number of countries that are just on the edge of being eligible. The second are mid-range performers that have the will to reform, countries that did not do particularly well but they did not do that badly either, but they want to reform, they want to change; they have, like Kenya has, a new head of state who really is interested in changing the system and has made some important decisions since his election last fall. The third are failed or failing states that need postconflict transition or humanitarian assistance. And finally, there are countries requiring assistance for strategic national security interests. We actually intend to categorize our portfolio of 79 countries in one of those four categories.

In the first group of countries, USAID will concentrate development assistance in child survival and health funds to specific areas that require strengthening for the country to get over the edge to be eligible for MCA. For example, if a country is not investing sufficient resources in training its people and its ministries to achieve better results, USAID would focus our programs in those areas to the extent that we could.

In the second group of countries, which are unlikely MCA candidates in the near future, we will assess the commitment to political and economic reform which is the requirement, really, for countries to be transformed developmentally. Where such a commitment exists, we will again concentrate our resources on building local capacity institutions that can support the foundation of MCA assistance.

For those countries that lack such a commitment, we will continue programs that address global issues and health issues such as HIV/AIDS and environmental degradation and humanitarian assistance, or if there is an emergency, but we will need to review our other assistance and whether it should really go into those countries.

The third group of countries are those which are failed and failing states. We reorganized 2 years ago; we have a bureau that deals with failed and failing states. What is a failed and failing State? I can give you 24 countries in the world that fit into that category. The CIA has a list that they maintain, a big map they produce each year. They have been doing this for 12 years now, and they can tell you exactly. It is the same list we maintain. It is the Somalias of the world, it is the Sudans of the world, it is the Afghanistans, although Afghanistan is now coming out of a period of 22 years of catastrophe.

So one bureau in USAID which has far more resources than it has ever had, the one headed by Roger Winter, is the Bureau of Democracy, Conflict, Humanitarian Assistance. It is the Office of Foreign Disaster Assistance, Office of Transition Initiatives, Conflict Management and Mitigation, and the Food for Peace Office and Democracy in Governance. They will be put in the third category.

Using our assistance in these accounts, we will integrate emergency relief food assistance with transitional initiative, governance, and civil society building.

Finally, USAID will continue to respond for needs in countries of strategic national importance where there are threats to American security interests, recognizing that

primary objectives typically fall under foreign policy but may not necessarily produce economic growth. And while these programs are usually funded with ESF resources, USAID will work quickly and effectively to achieve U.S. Government objectives.

Simply put, spurred by the proposal of the MCA, we intend to work hard both to more clearly define our different development and humanitarian objectives and to more closely align with them with the appropriate funding sources and mechanisms that exist right now.

MCC programs will be founded on a partnership--this is for the \$5 billion--driven by country demand. We stand ready to support the MCC. We know the committee is interested in learning more about the operational details of the MCA; however, until we have its CEO named and an MCC to begin to dialogue or to talk with, we are unlikely to be able to give you definitive answers, since they will be in charge and not AID.

Our general thinking is that if a country selected for MCC funding has USAID mission and program, we would undertake a strategic view of the existing portfolio of projects. In many cases we would see the USAID programs transitioning to support the MCC contract; however, there are critical global and regional threats such as HIV/AIDS that would continue to warrant support under the existing AID portfolio.

Indeed, one of the ways that USAID will complement the MCC is our ability to address regional issues such as disease, water resource management. We are dealing with the water problems of Mozambique, Zambia, Malawi and Zimbabwe, for example, in the Zambezi River Valley and the Limpopo River, because it covers four countries. We cannot do it and just deal with one country; transportation linkages affect regional trade capacity, and by virtue of being country specific, we cannot act.

USAID will not adopt a black-or-white approach on how we will relate to the MCC in every country. Rather, we think each country will be reviewed on a case-by-case basis and will vary depending on the country's capacity to manage the money it is getting. There is a wide variation in developing countries of whether the ministries can spend large amounts of money. There are some countries, where we could write a check to them, literally, and giving it to them would not place American taxpayers at risk and we would see great results.

There are other countries that are transitioning to democracy that will be eligible for MCA that want help in building that capacity but are not quite there yet, and they need to be treated in different categories even though they are both MCC countries.

We believe that maintaining this flexibility is essential for ensuring the MCA be truly country owned. Not only should MCA countries vary considerably from country to country, but a variety of different implementation mechanisms are likely to be used.

I have had private conversations with people from countries that think they are MCC candidates. I have never told them whether they are or are not. It is very interesting. You get very different answers from Ministers and Prime Ministers and Presidents over what they would do with the money if they got

it. I had one President who told me--I just smile when he says it--if we got this money we would use it entirely for road construction. The reason is that they cannot get their health clinics functioning because they literally cannot get to much of their population. There are no roads getting to them. In other cases, they cannot build health care systems or education systems because of the absence of transportation, or farmers cannot grow a surplus and sell it because they cannot move surpluses around. These are legitimate issues that need to be dealt with.

I would like to conclude by underlining the importance of maintaining the integrity of country ownership of the process. We know in the developing world that when a Head of State and Ministries and Parliaments take ownership, the likelihood of success of a program dramatically increases, and when they do not take ownership, the likelihood of failure is also dramatically increased.

The MCA creates a unique opportunity to prove that development done right can work. We urge the passage of this legislation. Thank you very much, Mr. Chairman.

[The written statement of Administrator Natsios follows:]

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#### MCA ELIGIBILITY

Mr. Kolbe. We have a very limited amount of time. I am going to ask one question of Mr. Natsios and cede my time so we can get others to ask those questions. Mr. Larson will have much longer to stay with us here.

So, Mr. Natsios, let me see, I am trying to see if I understand your concept of how this would work here. There could be 15, maybe 20 countries that might be eligible here to be considered MCA-eligible countries. What if one of the countries that is selected is already--presumably it would be--is already getting aid through other mechanisms: child survival and health program; ESF, Economic Support Fund; development assistance. Is the country going to be able to switch its funding from that, or is that funding going to continue, or are we going to tell an MCA assistance--you have been selected, you are going to get the funding over here; so that if they have \$50 million in this other kind of assistance pots, now they are going to get \$50 million from MCA, what incentive do they have to try to meet the criteria for MCA?

Mr. Natsios. Well, one, it is not a matter of incentive to meet the criteria. They have already met it which is how they are getting the money. This is based on past performance.

Mr. Kolbe. I guess the question would be: How does a country that might be shortfall, and it sees another country just having its aid supplanted by a different form of aid, what incentive does it have to try to get up to the standards?

Mr. Natsios. It is the order of magnitude. The amount of money that will be spent through the MCA in a relatively small number of countries means that the aid programs will be way up--for example, I actually have gone through and tried to do some calculations with our staff as to how this would work

practically. Most of the plus-ups in aid programs are by a factor of 5 to 10. I do not mean 5 to 10 million. I mean 500 percent or 1,000 percent increase.

For example, in one country, without mentioning the name because I am not sure they will be eligible, the program is now around \$40 million. They would probably go to \$300 or \$400 million. So the incentive is a massive increase in the volume of aid. That is the incentive.

And what I would propose to do myself, but we have to work this out--Secretary Powell would have to agree to this, and the new CEO--we would try to phase down our program in that country so we can go to this new contract baseline approach. If they want us to help them with the existing aid mission in the country, we would be glad to do that. It is up to them to decide whether or not we could be useful to them.

Mr. Kolbe. I have got lots of other things, but I want to allow other Members to have questions of Mr. Natsios before he has to leave to catch his plane. Perhaps we could keep this round of questioning to Mr. Natsios.

Mrs. Lowey. Thank you. Just following up, how would USAID help countries become eligible for MCA resources? Do you expect additional resources from the MCA to accomplish this?

Mr. Natsios. Well, it is being phased in. The first year, as you know, the proposal of the President for 2004 is 1.3 billion, not 5 billion all at once. It gets phased in and countries will be added each year until the whole 5 billion--if the Congress chooses to support the President's recommendations to get to that level. So there will be a phase-in of this, which is the appropriate way to do this.

We will, we expect, take the money from the countries where we have programs and we are phasing them down, and reallocate that to other countries. What we propose to do is to look to see why they failed. If they came close--I do not want to give country names, but I think of a particular country that I know does well in all the factors except they are not spending a lot on education. They are committed to it, but they just do not have the resources to do it. Actually, the Head of State said to me, ``Andrew, we need help in this area. Would you give us help?'' They know they may fail to be eligible because of this.

So what we would propose to do is go to them and say, look, if you are interested in reorienting the aid program in order to make you eligible, then let us work in this area very heavily so that you in fact will be eligible the next time a review is done.

Mrs. Lowey. You are talking about from your regular budget at AID?

Mr. Natsios. That is correct.

Mrs. Lowey. You are not talking about getting any money or setting up a special account to move people from a tier 2 or tier 3 upwards?

Mr. Natsios. Right. We are using the existing resources.

Mrs. Lowey. You know, I guess we will save it for Mr. Larson, but I am still puzzled, only because you will not be able to spend the MCA funds at least for 9 months or a year, so what are you going to do with the \$1.3 billion of MCA money?

Mr. Natsios. I am not running the MCA, so----

Mrs. Lowey. Just to conclude that one question.

Mr. Natsios. As a general proposition, there will be planning that will have to be done, but we have to remember the countries that are being chosen are, for want of a better term, the ``cream of the crop.'' These are the best managed, best led countries in the developing world, that are very poor nevertheless. The countries that are hardest to get started in are countries that are really profoundly dysfunctional. There are, unfortunately, a lot of them. But there are 15 or 20 countries that if I had a choice now, I would triple their budgets because they are doing so well, but they are still very poor and they need help. So it is not going to be as hard as you may think, because these are countries that meet the criteria in the first place, which means they are probably on the way up.

Mr. Kolbe. You only have a couple more minutes, and I want to try to get to more members' questions' for Mr. Natsios.

Mr. Wicker.

Mr. Wicker. Thank you.

#### CONTRACTING

Mr. Natsios, you mentioned the importance of locals taking ownership, and your testimony suggests that much of the required oversight and procurement will be contracted locally in the MCA. Is this a make-or-break provision, because it is very different from the way we have been doing business in the past, which involved using mostly U.S. officials to perform oversight; where possible, buying American goods and services?

Do you foresee the MCC actually using local officials and companies to perform what has previously been a fundamental U.S. Government function, and are these 15 or 20 really great countries that you just spoke about so lacking in corruption and their citizens so immune from temptation in the face of these huge amounts of money that this makes sense?

Mr. Natsios. No country is immune from temptation, because all human nature is fallen. That is the Calvinist side of my nature speaking now. The reason we and other Western democracies have less corruption is not because we are better people. It is because we have created a matrix of institutions to constrain the abuse of power in the state. That is why we work better, not because we are better. It is because we found systems.

And what we are trying to do to help in these countries is for them to create institutions that have the same effect in their societies, are part of their culture. And this is part of what we review when we look toward what is called host country contracting. The way USAID did its work in the 1960s, 1970s, and beginning of the 1980s, in fact, was mostly through the governments of these countries. We moved away from it because, as a general matter, it did not work that well. In some countries it worked very well.

What we would do, if we are going to give money through a Ministry in a country--and we do it, and about 20 percent of our budget goes through that mechanism now--we have the auditors, the inspector general, and officers of the different management functions of USAID review a list of capacities: Do they have national audit authority; do they have a civil

service system that can choose reasonably competent public officials to manage things that is not based on ethnic or religious or loyalties, for example; what are the education levels of people in the bureaucracy; do they have a transparent system of contracting, publicly, that is relatively free of corruption?

We look at those issues, and if they do not pass, we do not go through them now. I mean, that is an established standard we developed years ago and it does work. These standards, if they are conformed with, the risk to the United States is far lower. If they do not conform to them, our management people say we will not allow you to contract through these countries.

Mr. Kolbe. Mr. Natsios, your staff is giving me the sign across the neck here.

Mr. Natsios. You mean that I have to go or something else is about to happen?

Mr. Kolbe. I am sure we have many questions.

Mr. Natsios. I really have to answer Congresswoman Kilpatrick's.

Ms. Kilpatrick. Quick question. Thank you, first of all, for meeting with the Congressional Black Caucus. I appreciate that. You talked about your reorienting USAID into four categories. Going back to what the Chairman asked before in terms of the money, the 1.3 billion that you hope becomes 5 billion one day, what happens to the USAID programs in those countries that might go to MCA now? Will you be able to redirect those dollars?

Mr. Natsios. That is what our intention is, to redirect those dollars to countries that did not quite make it but want to make it, and so we will actually have, I think, more money in 2004 to move around than it appears in our budget because we will not be handling as many countries.

Ms. Kilpatrick. Okay. All right, thank you thank you for waiting.

Mr. Kolbe. I guess we are not going to get to any other questions to Mr. Natsios.

Mr. Natsios. If you send me questions in writing, I will be glad to answer them.

Mr. Kolbe. I really regret we were not able to get some more of your time here today.

Thank you very much, Mr. Natsios. I think we will just continue with questions and just go down the line, even though the first four of us had an abbreviated attempt. We will get back to ours at the end and we will get another chance to do that.

So let me go on, if I might then, to Mr. Lewis with questions.

Mr. Lewis. This morning, the Foreign Relations Committee reported the authorization of the Millennium Challenge Account on the Senate side, and I understand that they put the administration of MCA solely under the State Department. There was some debate that would have placed the administration of MCA solely under USAID, et cetera. I assume you are going to be responsive to direction that is now given in the Senate that would suggest the MCA would be located solely under State. Could you give us the flavor of that debate as it took place in the administration, the pros and cons?



Mr. Larson. Certainly first of all, I should say that I think the administration will continue to very strenuously make the case for an independent corporation that reports to a board that would be chaired by the Secretary of State and other Cabinet officers.

I think the flavor of the debate within the administration centered around how to make sure that in a new initiative that would be responsible for a very significant amount of money and that would be focused very very tightly on achieving development outcomes by working with the best performing countries that you can--albeit poor but with a strong commitment to development--whether you could do that best by establishing an entity within an existing organization like State or AID or somewhere else, or through a new small corporation. We felt, on balance, that by having a small, flexible corporation chaired by a CEO that had a business orientation towards measuring results and getting the outcomes that we wanted, we would be more efficient in achieving the results that we wanted to achieve, and to some extent we would free USAID--which is getting more budget resources for things like fighting AIDS and dealing with hunger and agriculture problems in Africa--to work with a broader range of countries that do not all meet the standards of the Millennium Challenge Account.

The Secretary of State felt very strongly that he needs to be accountable to the President and to the Congress and to the American people, but that he can do that through the mechanism of serving as Chairman of the Board of Directors of the Millennium Challenge Corporation.

Mr. Lewis. I was going to ask this question of Mr. Natsios, but certainly you could help us with it as well. It sounds as though in those frontline countries where MCA is going to be involved in, that there is a significant likelihood that in many, AID will essentially be pulling out much of its programming. I would hope that is not the case for some of those countries where USAID is operating mainly because of some of the work we have done there in the past. What are your thoughts about this?

Mr. Larson. Well, what Andrew Natsios has passed on on past occasions in response to this is they would like to be able to do a strategic review, and there are some things that might clearly be in the developmental area; and if it was a small program, it would be sensible for them to get out of. But, on the other hand, if they were involved as an implementer of the global AIDS initiative of the President, and they were in this country because it was one of the 17 or so countries that had a significant problem with HIV/AIDS, there would be a very strong argument in the view of USAID and the administration that that ought to continue, because that was focused largely on the public health priority of fighting HIV/AIDS and the fact that this was a country that was afflicted with it.

So that would be a case where we could easily imagine the MCA and USAID both involved in the same country.

Mr. Lewis. I almost hear you saying that you really anticipate kind of a significant shift in the activity in many ways of USAID, and indeed their traditional work may well be faded out.

Mr. Larson. I don't think--I don't see it that way, sir. I think what I am saying is that if you have a dozen or so countries in the first year that are MCA participants, and they come in with very focused proposals in one or two sectors, that that is going to be the predominant development focus of the U.S. Government in those countries, and USAID's development-promoting activities may well be in countries that are not quite at the level of performance with respect to governance and investing their own people and the economic opportunity, but, as Andrew said, trying to get those countries up to a level where they are better positioned.

Mr. Lewis. Lastly, will MCA be funding entities other than national governments? Will you be funding NGOs, for example, or local governments?

Mr. Larson. We are open-minded about how to best and most efficiently deliver programs and services and activities. We do feel very strongly that the focus here is working with governments that have a true commitment. So the idea would not be to go around the back of a government that you know you can work with, but there could be a government that has a strong development policy and it has a strategy that we believe in, but where the services can be best delivered by a nongovernmental organization in whole or in part, and we are very open to that.

Mr. Lewis. Thank you, Mr. Chairman.

Mr. Kolbe. Thank you. Mr. Rothman.

Mr. Rothman. Thank you, Mr. Chairman.

#### FUNDING

Mr. Secretary, it is my understanding that in order to qualify for MCA funding, countries must pass all three baskets by scoring above a median on at least half of the indicators in each basket; is that right?

Mr. Larson. That is correct. That is correct. I will amplify it in my response.

Mr. Rothman. What would happen if a country scored above the median on three indicators in the ruling justly basket, but had some of the worst scores for the other three indicators in that same basket; specifically, political rights and civil liberties? Would such a country still qualify for an MCA grant, with terrible scores on half of the indicators of a given basket?

Mr. Larson. You raise a very important point about the impossibility of running a selection process on automatic pilot. One of the reasons why we felt it was very important to make sure that the Board made the final decisions about which countries to recommend to the President is that, as much as we want this to be based on objective and transparent indicators that are available to the Congress, the public, and the countries themselves so they know what our standards are, we do recognize that these indicators can have difficulty. Sometimes the data can be flawed or lag or be missing, and so that creates a bias.

We spent a lot of time worrying about whether we should be using averages like an SAT score in these three areas.

Mr. Rothman. If I could ask you this, should there be a

minimum requirement for each of the indicators?

Mr. Larson. Our judgment is that the approach that we set out was intended specifically to deal with the problem of not supporting countries that have a very skewed performance; in other words, they were very good on investing in people, for example, but they were oppressive, they did badly on governing justly.

We see this methodology as something that shouldn't be slavishly followed, but it is a way of emphasizing to the board. We are looking for countries that are showing strong performance in all of the areas that are important to development; but at the end of the day, the board is going to have to look at all of that and other information available and make a judgment.

Mr. Rothman. Perhaps, though, in order to make it more transparent for everybody, American citizens, the Congress, and the potential recipients or beneficiaries, perhaps a consideration for a minimum requirement for each indicator would be worth considering.

The purpose of the MCA is to eliminate poverty in the most efficient way possible. Why is the administration proposing expanding the income threshold for qualification to countries with per capita incomes up to \$2,975 by fiscal year 2006 when, it is my understanding, there are plenty of countries with the per capita incomes below \$1,435 from which we could presumably pick more than enough candidates for all of the money we are going to give that year?

Mr. Larson. The reason we proposed that is that some of the poorest people in the world live in these low- to middle-income countries, and we have felt certainly the spirit of the discussion within the administration is that we want to focus on poverty alleviation in the poorest countries. And while we didn't put any specific benchmarks in the proposed authorization legislation, it is certainly the intent of all of us who work on this that the bulk of the resources would go to these poorest countries, and that, in competition to get into the MCA, they would compete among themselves, not against this slightly richer tier of countries.

Mr. Rothman. If I have another half a second, what about countries that are already receiving foreign aid from the United States that are in that higher category, the \$2,975--or, frankly, even in the lower category--would they be put at the bottom of the list? Would the fact that a country receives substantial assistance from the United States be a relevant factor in the decision-making as to whether to include them in this program?

Mr. Larson. It would be a relevant factor; and I think so, too, would be whether the focus of any proposed activity was to strengthen their efforts to alleviate poverty in that part of the population that had it, rather than on significant transfers of resources. It might be more of a transfer of management know-how or technology or ideas about how to address that problem, rather than a resource issue, the way that it would be in some of the poorest countries of the world.

Mr. Rothman. Thank you, Mr. Chairman.

Mr. Kolbe. Thank you.

Mr. Knollenberg.

Mr. Knollenberg. Mr. Chairman, thank you very much.  
Secretary Larson, welcome.

I have said before in this committee a number of times that I do support MCA. I do have some questions about specifics, as I am sure that we all do, but I do support this initiative. And I think the strength of the MCA is that it focuses responsibility for economic growth on the policies of the governments, the developing countries themselves. In other words, we can't just focus on transferring aid or resources to the developing world; we have to, in fact, see real growth, unlock--unlock the resources that they already have.

I know that Administrator Natsios referred to farmers not being able to sell surplus. That doesn't make any sense to anybody else in this country, but it is true. The banking, what about the banking? What about leveraging property, collateral? The whole idea of private property seems to be strange to so many of these countries.

This new proposal will bring a lot of questions as it is. What kind of technical assistance, for example, are we going to give, or help these countries with, to prepare the proposals and contracts? They obviously need some help. And how do we help countries prepare their proposals while, at the same time, ensure the priorities are being established by that particular recipient country?

Will the Millennium Challenge Corporation employ its own experts, own technical experts? And if they do, how much will that cost?

And then finally, if not, where will they come from? Will they come from within the country? If a different organization or agency gets involved, won't they bring their own biases, their own thoughts, about about development priorities as well?

So if you could refer to those questions, I would appreciate that. Thank you.

Mr. Larson. Well, thank you, and this really gives an opportunity to get a little deeper. How could this work in practice?

Let's assume we have selected a country. A country has shown through its policies and been vetted by the board and approved by the President, and this is a country that we want to work with. I think the first thing that would happen would be that we would want to immediately initiate a discussion with that country as to where is the area or areas, one or two areas where, by working together over 3 or 4 years, that we could really work with you to carry your development to a new level.

And you mentioned, sir, some agricultural examples. Let's assume that that country, having gone through a process of discussion with its own citizens, had agriculture at the center of their development policy, as many African countries do. Then I think we would--and they might well have some very well developed ideas about how to promote agriculture, but have been short on resources. We would want to discuss those ideas with them.

We would want to bring in outside, as well as inside, experts. I think it would be quite desirable to have an advisory network, for example, of people from land grant institutions that were prepared to vet proposals and add advice about how to make sure there is a property rights component,

land tenure component, a credit component, a marketing information component, so that if you are going to do this right, you are going to make sure that farmers have the information, the technical support, the seeds and so forth that they need and the ability to market them, so that the whole program fits together, the contract, the proposed contract, would set out benchmarks that the country would be attempting to achieve and that we would jointly be measuring.

And if I could just take a second to go back to Mr. Wicker's question from earlier, our approach would be trust, but verify. I mean, we would certainly want to inculcate in this country the notion that it is important to measure the success of their own programs, and so developing that local capacity to do so is very important. But we will want to have an ability to audit from outside as well, not just financially, although that is important, but also auditing the outcomes: Are we getting truly the outcomes that we are trying to achieve?

Mr. Knollenberg. But you would welcome additional sources or expertise that would be available? That is what you are saying?

Mr. Larson. Yes, sir.

Mr. Knollenberg. It won't stop just within the Department.

Mr. Larson. Oh, absolutely not. We want to bring into the house some of the best people we can find, but we want to also be--particularly sectorially, I think--be able to go outside the house to have advice on, say, education if it is an education project, or agriculture if it is an agriculture project.

Mr. Knollenberg. But you are going to have your hand on the throttle? You will maintain control?

Mr. Larson. Yes, sir. Yes, sir.

Mr. Knollenberg. All right. Thank you very much.

Mr. Kolbe. Ms. Kaptur.

Ms. Kaptur. Thank you, Mr. Chairman.

Welcome, Mr. Larson. I would like to begin by asking the chairman if I might submit for the record an article entitled Women and Ending Hunger: The Inextricable Link.

Mr. Kolbe. Yes, of course. The article will be placed in the record following your remarks.

#### WOMEN AND AGRICULTURE

Ms. Kaptur. Thank you.

I would like to begin by stating I am very intrigued by the Millennium Challenge Account and also by your title that now includes the words ``Agriculture Affairs.'' We know that the majority of poverty in the world is in the rural areas. The article I just submitted for the record makes some interesting observations.

It affirms, for example, that famines account for less than 8 percent of hunger-related deaths in the world and indeed, 92 percent of the remaining difficulties that we have globally with poverty. It is day-by-day chronic, persistent hunger, a killer that takes the lives of over 20,000 persons a day across our globe.

The article also goes on to indicate that in most places in the world, the role of women is critical, certainly in

agriculture. Rural women are responsible for half of the world's food production and produce 60 to 80 percent of the food in most developing countries. This is particularly true in South Asia and Africa.

I would like to read into the record: ``In sub-Saharan Africa, women food farmers produce 80 percent of Africa's food, do the vast majority of the work to process, transport, store, and market Africa's food. They also provide 90 percent of the water, wood, and fuel, despite the fact that they own just 1 percent of the land, receive less than 7 percent of farm extension services, and receive less than 10 percent of the credit given to small-scale farmers.''.  
[The information follows:]

GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT

Mr. Larson, I have been a very strong voice in this Congress for agricultural development globally. I have also been a very strong voice for women being involved in that process.

What can you tell me about this proposal that will assure me that over half the funds that you propose will go to women who are actually doing the work in the most poverty-stricken places on our globe?

Mr. Larson. Well, thank you, and thank you for your support for agricultural development over the years.

It is interesting that the President, when he announced his initiative, cited agriculture as a good example of the types of things that we would be interested in supporting through the Millennium Challenge Account. It is also interesting that that corresponds very much to the announced priorities of many of the developing countries. Certainly, the Africans cited agriculture as a priority, even at a time when the World Bank and others had it lower down on their priority list. So we think we are in tune with the thinking of the developing countries here.

Secondly, the administration has sought to increase attention--and more than attention, its capabilities--in working with countries to end hunger through agricultural productivity. We welcome the fact that Congress has supported some increased resource for this, and we are moving forward in Mali, Uganda, and Mozambique within Africa to really attack hunger through agricultural development.

We get at the issue of women and development in at least three different points in this Millennium Challenge. First of all, we get at it through the selection criteria, because the indicators include several indicators that get at the issue of voice and vote. I mean, is this a country where citizens, including women, have the right to have a say in the policy process? That is one of the indicators. Civil and political rights, things of that sort. And the social indicators, the investing in people. One of the most important ones is the primary school completion rate, which you are not going to have a good record on if you are not spending your education resources on primary school education for girls as well as boys.

The second place where we get at the issue of opportunity for women is in the process of establishing the priorities for development in a country that is a participant. We have put very strong stress on the importance in that country of outreach and having a process where establishing development priorities is participatory--that is, open to citizens, to NGOs and to business. And, one of the things that we will look at very closely in examining proposals is, has there been that sort of outreach that encompasses the views of citizens, including women.

Finally, and this in a way circles back to what I said at the outset, I think the sorts of initiatives that the President has highlighted as ones that we would be interested in supporting are ones that promote women's opportunities. I mentioned already agriculture as an example that he has cited, and I have worked in Africa for 5 years, so I know exactly what you are talking about when you say that it is the women in Africa that are responsible for so much of the agricultural production.

A second example that he gave is education where the President subscribes and has put the United States on record as subscribing to the international development goals which include gender equality and universal primary school education.

So we think we are getting at this at each stage, at each stage of the process.

Ms. Kaptur. Well, I know when Catherine Bertini--and I will just close with this, Mr. Chairman--headed the food and agricultural services globally, she developed regulations assuring that half of the assistance would go to women involved in development. I would strongly urge you to take a look at the information I provided to the record today. Also, to the extent possible, engage our own U.S. Department of Agriculture through the PL-416 program, which the administration has zeroed out this year, and then reduced the PL-480 by nearly \$600 million under last year. This is a serious impediment to your completing what you are attempting to do here.

I will come back on the second round.

Thank you, Mr. Chairman.

Mr. Kolbe. Mr. Vitter.

Mr. Vitter. I don't have any questions right now, Mr. Chairman. Thank you.

Mr. Kolbe. Mr. Kirk.

Mr. Kirk. Mr. Larson, I think the collective groan you hear on this proposal is for all of the other entrenched agencies that see this as a threat to the standard way of doing things, but I think this is a good direction to go in.

Can you tell me, though, in your eyes, which USAID recipient has failed?

Mr. Larson. Which large U.S. foreign aid recipient has failed?

Mr. Kirk. I can name a bunch, but I want to hear it out of your mouth.

Mr. Larson. Well, what I am going to say is probably not going to be exactly what you want to hear. I think that there are a number of assistance programs that have failed over the years.

Mr. Kirk. Let's hear one.

Mr. Larson. Well--hear one program?

I think some of the direct cash transfer programs that we have done in countries like Egypt in earlier days have not been as successful as we would like. That is one of the reasons why we have moved drastically to a policy-based program in Egypt and are connecting the sorts of assistance that we are providing to those sorts of changes.

I mention Egypt because I know it is a country that many cite. It is also, though, a country where in recent years, there have been some very important changes in their exchange rate policies, in their trade policies, privatization; they have signed on to the basic telecom agreement and the information and technology agreement.

So I think we are getting results from our assistance programs now in a way that perhaps we haven't always been.

Mr. Kirk. Maybe the Government of Tanzania, one of the favorites of the development community, I just think totally failed to ever lift the GDP of that country after billions of dollars in foreign aid.

Mr. Larson. There is a dependence issue in a case like Tanzania. I mean, one of the things that we desperately want to avoid with this program is a sense of dependence. We would like to have time-limited programs where you go in, you accomplish some objectives, and then you get out. So it isn't seen as, as has been indicated earlier, as a cash transfer program, but it is seen as something where you are getting specific results.

Mr. Kirk. I might say, under this proposal, Zimbabwe would be a big loser because its head of state is slowly going crazy?

Mr. Larson. Yes. I think there are a number of countries that are not going to meet the governance criteria under this program.

Mr. Kirk. That would be one, you would think?

Mr. Larson. I would certainly think that on governance issues, property rights issues, and any number of the criteria, they simply don't cut the mustard.

Mr. Kirk. I would hope so.

I think your proposal would be helped if we could begin to see who you thought the winners and losers would be. I have noted--looked a long time at West Africa and looked at a country like Togo and looked at a country like Ghana.

Ghana, under everyone up to President Rawlings, was a complete and total failure through the utter incompetence of its own leaders. But finally, under President Rawlings, it was a bit of a darling of the development community and showed results. Ghana's next-door neighbors, both west and east, have completely collapsed, largely because of the decisions of their own government. Would Ghana be a winner?

Mr. Larson. Ghana is certainly a country that performs very well.

We have been very cautious, Congressman, about saying, here is a winner and here is a loser, for several reasons. One is that the information does change, and you suggested even in the case of Ghana, it is a country that has had its ups and downs.

Secondly, we don't want to create a sense of false expectations on the part of countries that think they are winners and then when the time comes, it turns out that they have slipped in a way that makes them, in our judgment,



ineligible.

I understand the spirit of your question, and we are looking for ways to help to build confidence on the part of the Congress that the types of countries that come up for consideration under the processes that we have talked about are countries that look right; they are countries that do, albeit being poor, have a sort of commitment to good governance and to helping their own people and to opportunity, that, you know, that is recognized around the world.

So what I can tell you today is, we are not getting strange results when we look at how this process works.

Mr. Kirk. I would just say that the collective groan you are hearing up here is that we know who the losers are. There is an entrenched bureaucratic interest in service delivery.

Mr. Larson. Yes.

Mr. Kirk. But not much interest in service performance. And if you could, though, begin to tell us who the winners are, you build the political coalition up here, because each one of these countries and regions has supporters up here. You could build that behind this proposal.

Being in the dark on that means that the people interested in service delivery without performance will eat this proposal alive up here, as is happening over in the Senate Foreign Relations Committee; and I think that you need this flexibility. I think the Ghanas of the world need to be rewarded and the Tanzanias and especially Zimbabwes of the world need to be punished. So I hope we can move forward, but we will need some political reality and adjustment to sell this proposal.

Thank you, Mr. Chairman.

Mr. Larson. Thank you, sir.

Mr. Kolbe. Thank you, Mr. Kirk. I think we are going to blaze that overhead here: Service performance, not service delivery. I think those are the words that this subcommittee needs to keep in mind.

Boy, I have so many things to talk about here, I don't even know where to start. But I am going to start anyhow.

The legislation, the draft of the legislation from the administration refers to key areas of focus: agricultural development, education enterprise, and private sector development, governance, health and trade, and investment capacity-building. It would seem to me that at least some of those are things that we are doing traditionally in foreign assistance--agriculture development, education and health. Not that they are wrong, but they don't seem to be the things that are truly the ones that are the focus of economic growth, which is what this is supposed to be all about.

I am just trying to understand how this differs from what we are doing. It sounds like there is an awful lot in here that could be very traditional kinds of--the same kinds of programs we are doing, and there is not anything about infrastructure and there is not anything about property rights.

You have referred several times to property rights. Nothing is mentioned in here in the legislation about property rights.

Mr. Larson. First of all, we--the list you cited, Mr. Chairman, is meant to be illustrative, not exclusive, and it is meant to convey the sorts of sectors that can be productive and

growth-enhancing. We do think that we ought to respond to developing country priorities so long as we see that there is a firm connection between those priorities and growth.

I think what is new about the President's proposal--and I was about to bring it up in following up on Mr. Kirk's conversation--is that we have, you are right, over the years seen some real benefits to investments in education and health, if they are investments and they are the sort of thing that can help a country achieve a new level of development.

I think what is new about the President's proposal is that it also recognizes that if you are working with a country that is committed to development outcomes, promoting economic growth may be the best way to deliver education. I mean, if they are committed to education and are devoting an appropriate share of their budget to education and, moreover, are making sure they get results out of education, then arguably the key issue they have is how to grow their economy so that they can spin off even further resources for that purpose.

So there is a very strong openness in the President's proposal to helping small business, helping a country learn to trade, participate more effectively in the trading system, or using IT to modernize their development. It is not that we have thrown out the traditional approach, but we have said the traditional approach is not complete and there needs to be a stronger focus on economic development and growth.

Mr. Kolbe. In response to Mr. Kirk's question about who are the losers, you said--in the programs, you said some of the cash assistance.

Mr. Larson. In the past.

Mr. Kolbe. And you mentioned Egypt. But the Millennium Challenge Account really is budget support, isn't it? I mean, you don't anticipate contracting with NGOs to deliver services?

Mr. Larson. I wouldn't assume that this is budget support in the way that has traditionally been viewed. The starting point really would be that you are going to sit down with this country and say, what is your biggest priority?

Mr. Natsios mentioned, in one country it might be roads or infrastructure. I don't know if that would be true, but let's just assume for a moment that it was true. You would want to, under those circumstances, look at a way to work with that country to have a program that would deliver these services on a cost-effective basis in a way that definitely promoted economic development.

I think that, in my own mind, the distinction between project support and program support is one that begins to blur if you are doing things right. If you are doing things right, you are going to be providing a mix of technical capacity-building, financial support, management support; and the ability to measure the results of programs, that is somewhere between what we often think of as project activities versus what we think of as program activities.

Mr. Kolbe. This question really belongs to Mr. Natsios, but you are stuck because you are here.

He referred to the USAID Millennium Challenge Account complementing what USAID does and vice versa. Yet the three largest countries in the administration's request for foreign assistance this year--for development assistance, not in the

health account, not child and survival, not in migration or anything else--the three largest countries are Sudan, Indonesia, and Pakistan. Are those the countries we have in mind?

Mr. Larson. For the Millennium Challenge Account?

Mr. Kolbe. Yes.

Mr. Larson. No.

Mr. Kolbe. Okay. So I think we have to think about really how--whether what we are doing right now is really in that direction.

Again, I want to emphasize those are the three largest countries in development assistance that we are talking about under the current assistance.

Mr. Larson. I mean, these obviously are three countries where there are huge issues, where we have national issues at stake and we need to be a force for help. But they are not----

Mr. Kolbe. Exactly, but I am not sure they would be the three I would pick for development assistance.

Mr. Larson. I understand.

Mr. Kolbe. Which leads me--this will be the last question I will get here--to the whole question of transparency, which you talked about, and I absolutely agree, this process has to be absolutely transparent for selecting the countries; which leads me to the question, why is there some objection to not telling us which countries are going to be selected, but which ones, based on these objective criteria, meet the eligibility criteria?

I mean, do you just say, here are the criteria--you go down and you score all of the countries--here are the scores the countries get under this?

Mr. Larson. No. We are struggling with this issue, and I am taking to heart what Mr. Kirk said about the way in which it could help the Congress have a better understanding of it.

I mean, the issue, Mr. Chairman, is that we are in the process of setting up from scratch a totally new approach. When the President made his speech just over a year ago, he said, I want to focus on these three benchmark criteria, these three bedrock criteria: governing justly, investing in people, and opportunity, economic opportunity and freedom. And it was up to his team to try to figure out how to operationalize those concepts in the most effective and transparent way that is related to economic growth.

And we worked very hard on this and we tried to find the sorts of indicators that were accessible outside, that would be available to the Congress and the public, that we think were reliable. In some cases, the indicators were out there, but they didn't have sufficient country coverage--you know, like 60 percent or 70 percent of the countries had ratings under them, so we, in some cases, were able to encourage the people who keep this data to start broadening their coverage.

And we have been concerned that the sort of results that you got and would continue to get by applying those indicators and the methodology that was referred to earlier could be misleading, because that data will change before we make the final selection process. And it has been worry about that--that is, it made us very, very reluctant to have lists floating around saying, well, these are who the countries would be if we

are done in March 2003.

Mr. Kolbe. I thank you. Still have lots more.

Mrs. Lowey.

Mrs. Lowey. I thank you, Mr. Chairman. I appreciate your focus on involvement of the Congress and, specifically, our committees in this process. However, other than our very nice chat, we haven't seen any evidence of it. Certainly we passed the Iraq supplemental in record time and more than a month has gone by, and we have yet to be consulted on the roles and responsibilities for Iraq reconstruction.

On MCA, as I stated before, the proposed legislation contains no provision for congressional oversight, and I am told that sections addressing this issue that were contained in the draft bill, sent by the IR committee to the White House, have been removed by administration officials.

Perhaps you can elaborate, because I appreciate your focus and your emphasis on collaboration. Can you give us your vision about how Congress and the Appropriations Committee specifically should be kept informed by the executive branch?

Mr. Larson. Yes.

First of all, I will certainly try, and I think the first step of the process of working together in consultation is something that we need to consult about, because my ideas about what is a good process of consultation may be interesting, but I think it is the Congress' ideas about what works for the Congress that will be very important.

Mrs. Lowey. In fact, Mr. Secretary, perhaps I should add another part to it, so you can answer it all together.

Would you oppose a requirement that Congress be notified on a country-by-country basis prior to the disbursement of funds from the MCA, and if so, why?

Mr. Larson. Well, what I was about--let me circle to that, if I may.

I think that the Congress would have every right to believe that the members of the board and the CEO would be available both for hearings and for other, less formal types of consultation to get--to discuss the basic operating procedures and policies of the corporation, as well as to discuss the sorts of results that the corporation was getting and so forth. I assume that both the Board and the CEO will appear before the Congress and give an accounting for the results that they have achieved over periods of time.

With respect to the specific contracts, I have said that I expect that--well, not just expect; it is our policy that those would be published on the Web, and so they would be totally open and transparent.

I think the place where I hesitate in response to the elaboration of your question is whether it is useful to have a mandatory notification requirement or whether it is more productive to have the sort of transparency that I alluded to and the type of consultative process that gives the Congress confidence that they are having the sort of voice and influence that they should have to be responsible for the people's money. That is a detail I don't have an answer for you on today. What I can say is, the Secretary, in every conversation I have had with him, focuses on accountability to the Congress.

Mrs. Lowey. Perhaps we can continue that discussion.

Mr. Larson. Sure.

Mrs. Lowey. Because I would be interested to know your vision and that of the Secretary of State.

Mr. Larson. Sure.

Mrs. Lowey. With regard to the \$1.3 billion requested for fiscal year 2004, does the administration expect to be able to spend, in fiscal year 2004, this money, assuming an October start date for the MCA?

And given the fact that there are such incredible needs out there, I am wondering why \$1.3 should even be appropriated. Could you respond?

Mr. Larson. Sure. The administration would like to be able to move very, very quickly in the new budget year to implement this program. It is one of the reasons why we have been pushing for fast progress on the authorization bill; that is why we appreciate the opportunity for this hearing, to be able to advance as much as possible the timetable.

We have within the administration a steering committee that is trying to carry forward some of the further work on the Millennium Challenge Account so that when a CEO is selected, the CEO will have available a set of options about issues, including the management of this corporation, that will facilitate a quick start.

I think that if we get moving right away in October, if we have both legislation and appropriation, that it would be possible to immediately initiate consultation with the countries that the board and the President believe should be the participants in the first year, and be in a position to move that money in a responsible way.

It may be that if you are working with a country on a sustained program dealing with agriculture, to take the first example that we had, that not every dollar of that will be expended in country in budget year 2004. But I think what we are going to try to do is achieve a balance between continuity and accountability. In other words, we would like to work with the country to have a sustained program over a period of 3 years or so that would really allow for the continuity that will build, that would achieve results.

Mrs. Lowey. I think my time is up, but I would still be interested to know why, if you are not going to spend the \$1.3 billion and given the support that you are going to get from this committee, you mentioned over a couple of years that you wouldn't have confidence that, having an effective job, you can come back and get the money you need while some other urgent needs are being met.

Mr. Larson. No. Well, just to be very clear, we would hope to have--if we select a country, we would hope to be working with that country with appropriations from the successive budget years.

I am just stressing the fact that we would see this as not being a light-switch approach unless the country started deviating from the good policies that got them into the program in the first place.

Mr. Kolbe. Before I call on Mr. Wicker, I can't resist just saying in response to Mrs. Lowey's questions and your answers about consultation with Congress that, Mr. Larson, this subcommittee might have just a tiny bit of skepticism about

what constitutes consultation with this subcommittee, since on Iraq we are still waiting to be consulted, and we are informed that, I guess when a fax comes floating across the machine, that constitutes consultation with the committee.

Mr. Larson. The Secretary of State has a very, very strong commitment to consultation, meaningful consultations.

Mr. Kolbe. Good. We are waiting for it.

Mr. Wicker.

Mr. Wicker. Mr. Secretary, on page 2 of Mr. Natsios' testimony he states and I quote, ``The MCA symbolizes a dramatic turning point, both in putting into practice what we know works in development and in elevating development as a fundamental aspect of our foreign policy. As Under Secretary Larson suggested, the MCA is the direct outgrowth of what USAID and other development actors have learned over the past 50 years. We not only have considerable firsthand experience about what has worked and what hasn't, but we also have the benefit of considerable recent analysis by the World Bank,' ' et cetera.

Let me turn Mr. Kirk's question around. What are the best success stories in foreign policy that you are going to use as templates for making the MCA work in accordance with Mr. Natsios' testimony and his quote of your suggestion?

Mr. Larson. Let me give you a couple of broad points and then perhaps a couple of specific points.

One of the things that Andrew's testimony was referring to is the track record of seeing that countries that have good policies, as defined by good governance and openness to the international economy, have been shown by World Bank economic studies to be countries where you get up to four times the development outcomes or benefits from foreign assistance as you do compared to what you get if you are providing foreign assistance in a country that doesn't have a good policy framework. So that is a basic, general, generic point that has been very important.

A second basic generic point is that local ownership of the development process is very important. The previous Treasury Secretary once referred to the assistance approach of ``dollars for promises.' ' Dollars for promises doesn't work very well, because if you are only bribing a country, you are sort of conditioning them to do the right thing because of the offer of resources. That has not proved to be a good approach. They have to have a commitment to development in the first place, and that is why we put so much emphasis on these indicators and on the President's three criteria.

In terms of more specific examples, I am not going--I am going to cite countries, but countries in terms of specific things that they have done. I mean, in the area of education, for example, one of the things that we have seen is that countries that have a commitment to the transparency of budget often get much better results than those who don't.

In Uganda, for example, they started a process of pinning to the school door the budget that was provided by the central government, and they found that when the local community understood what resources were being used for education, they became very, very interested in the results that were being achieved in the local system. So that example of transparency in the educational budgeting process in Uganda is a very good

practice, which I think has broader applicability.

Mr. Wicker. So Uganda, with regard to education?

Mr. Larson. Uganda, with regard to education, is a very good example, yes.

Mr. Wicker. Are there others?

Mr. Larson. Well, sure. I just didn't know how long you wanted to go, sir.

Mozambique is a country that has shown a very, very strong response after a period of civil war. Part of it has been an economic framework that has been open to participation in the world economy. There has been a trade openness. This is a very, very poor country, but it has had growth rates in the 8 percent range year on year for quite some time, and a big part of that has been the openness of their trade regime and moving to a more market-oriented economy.

Mr. Wicker. Might Mozambique be an MCA country?

Mr. Larson. Well, I think they are among the countries that are in striking range. I am not, like I said, I am not in a position today to say, well, this country is and this country isn't, but they are certainly a country that, you know, if you look at the top 30 performers that do relatively better than the others in this basket of low-income--lowest-income countries, they are one of the ones that have a good track record.

Mr. Wicker. Okay. Well, I think I would just suggest that you supplement your answer for the record with perhaps other examples.

Mr. Larson. More examples, sure.

[The information follows:]

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Mr. Wicker. Also--I think my time is fleeting, but could you specify on the record the various laws that you want to exempt the MCA from, and whether that includes the Buy America provisions that we have adhered to under previous foreign assistance?

Mr. Larson. Let me do that for the record as well.

[The information follows:]

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Mr. Larson. But, yes, we would like to have flexible procurement regulations. What we have not asked for is any exemption from laws that would bar assistance to countries.

I just want to be very clear if there were any doubt. We don't--if a country is ineligible to receive U.S. assistance by virtue of terrorism policies or other policies where Congress has legislated bars on receiving foreign assistance, those would be honored and respected under the MCA as well.

Mr. Kolbe. Thank you.

Because you passed on the last round, before I go to Ms. Kaptur, I will see if Mr. Vitter has any questions.

Mr. Vitter. No questions.

Mr. Kolbe. Ms. Kaptur.

Ms. Kaptur. Thank you, Mr. Chairman.

I would also like unanimous consent to submit for the record budget summaries over the last several years of agricultural assistance to other countries from our country and the continuing diminishment of that assistance, both in direct food aid through traditional programs like P L 480, as well as the Section 416 program, which has been our traditional development tool in agriculture, which has been zeroed out by this administration.

[The information follows:]

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Ms. Kaptur. If I listened to Mrs. Lowey correctly, your budget request for this coming year is \$1.3 billion in this account? Did I hear that correctly, or is it \$5 billion?

Mr. Larson. For Public Law 480? For the MCA it is 1.3.

Ms. Kaptur. 1.3, all right. If I look at the serious reduction in the PL 480 program, which is our mainline program, the administration has recommended a \$600 million cut. The elimination of the Section 416 program, which is our traditional program to do development through the experts we have in this country who reside in our land grant universities and our local rural areas across this country, using surplus farm commodities, monetizing them in whatever country we send them to, and then using those proceeds through groups like Mercy Corps and World Vision to do development.

As far as I am concerned, the elimination of that program and the cutbacks in the other program are going to do so much harm. Now, the administration comes forward with this proposal. I view it as sort of a shell game, because programs that I have jurisdiction over on my other subcommittee are being seriously cut and they make a real difference.

I think feeding the hungry is the first requirement for those who care about others. Right, feeding the hungry? Those programs are being cut, while now we are creating this account that is supposed to eliminate poverty and do development.

I am not against helping people. In fact, that is probably why I ran for Congress. However, I find this somewhat mystifying. I am very troubled by the apparent cutback in programs that I know work, and then substituting this, which is brand-new. There are many questions about how it's going to function.

I will also place on the record, sir, because you may not have been here when Mr. Atwood was Director of USAID, I asked him a question when he came before our Agriculture subcommittee on USAID's total contracted employees and how many had any knowledge of agriculture. Out of 10,000, the answer was 80. AID, as good as you are, is not structured to do agricultural development where most of the world's poverty resides.

I know Mr. Natsios has a desire to try to help there. But what you are doing is robbing the programs that have experience in the field and you are trying to create this new account. I am concerned about what is happening to those other programs. You are not going to be able to make this work in time, and we have programs like 416 that we know work and you are zeroing



out.

How do you respond to that?

Mr. Larson. Well, I respond as follows: I come from agriculture. I have agriculture in my title, as you mentioned, and along with Mr. Natsios, I have worked very hard in the capacity of my chairmanship of the administration's Development Policy Committee to get a stronger focus on agricultural development.

We have initiated the program to end hunger in Africa. That is an agricultural productivity initiative that has had increases--and thank you to the Congress for this--but has had increases of about 25 percent year on year for agriculture development, because we are trying to rebuild that capacity.

We think it is a terrible mistake that the development community internationally drifted away from agriculture after the Green Revolution and that grain revolution, and that there are many parts of the world, including Africa, where agriculture productivity has languished.

Ms. Kaptur. Are you using that in your land grant institutions and their connections to help?

Mr. Larson. Yes, we are, as well as the foundations. Iowa State, for example, is one I know that is involved, Michigan State University, I think all--well, not all, but a number of the land grant institutions have at least individuals who are involved in this.

Ms. Kaptur. But you know that by eliminating the 416 program, you seriously undermine their abilities to do development in other places?

Mr. Larson. Yes. On the food issue, we believe that it is unfortunate that the rest of the world has not placed the priority on this that we have. We are still providing at least a third, and in some of the most afflicted places we are providing 50 percent or more of the emergency food assistance.

We are making a very, very strong effort to get more attention on the situation in sub-Saharan Africa; and Mr. Natsios and I took the initiative of organizing a meeting at the United Nations with the Secretary General Kofi Annan to get the GA countries to pay more attention to the need to respond here.

The administration has made a decision to move from 416 to the Public Law 480 programs. We had a plus-up. You, Congresswoman, will be able to recite the figures better than I can since it is your committee.

Ms. Kaptur. There is no plus-up, sir. There is no plus-up.

Mr. Kolbe. If I could just interrupt, this is not the jurisdiction of this subcommittee; it is the jurisdiction of your subcommittee.

Ms. Kaptur. No, Mr. Chairman. The agriculture programs unfortunately are cashed out to AID and then they do the contracts in the field.

Mr. Larson. All I wanted to say is that we believe that food assistance is important. We are actively involved not only in doing more, trying to do it better internationally through improved procedures of early warning, but also trying to get other countries to do more of their share.

Ms. Kaptur. Mr. Chairman, because my time has expired, I must say that it isn't just food assistance, it is assistance for agricultural development and it is those programs that are

being penalized because of the way in which the administration is cutting those funds. The fact that even your testimony talks about emergency food. We do emergency, we do humanitarian and we do development, and it is the development piece that is falling out, as well as the emergency food assistance.

Mr. Kolbe. Thank you.

Mr. Kirk.

Mr. Kirk. Thank you. Just to follow up, based on what I am hearing from you, prior draft winners of this program might be countries like Senegal, Ghana, Botswana, Georgia, Bangladesh, Ethiopia, Eritrea, and Mozambique is sort of what I have heard.

Draft losers: Zambia, Zimbabwe, Cameroon, Cote d'Ivoire and Togo. Is that not unreasonable, as we look?

Mr. Larson. I am not going to get drawn into the specifics of any individual country, but I think your first basket is countries that, taken as a group, are considered to be better performers, and the second basket includes a lot of countries that have had problems.

Mr. Kirk. Right. Well, following up on the theme of service success or service delivery, we bilaterally are the number one donor to only a couple of countries, I think it is four. But we are the number one donor to the World Bank and IDB and ADB, et cetera, on the multilateral side.

Would a positive rating by the MCA generate any influence on the U.S. executive director's office in the multilateral development banks? Because with the World Bank being the number one donor to about 50 countries, the MCA rating could have far more impact by influencing the U.S. executive director sitting on the board of those institutions than through the \$1.3 billion that you have.

Mr. Larson. Well, the executive director of the World Bank has been very actively involved in our preparations. I mean, she works for us. Treasury, who instructs her, was actively involved in the work on the MCA.

I think the really encouraging thing about this initiative is, it is changing the way that other development institutions are thinking about development. The British have sent people over to meet with us two or three times to understand better what it is we are doing and how we are going about this MCA, because they are intrigued at the seriousness with which we are approaching this development assistance initiative.

We have tried, through our representation in the World Bank, to move them in the same direction. We have, for example, gotten a stronger focus on measuring results in the World Bank than was there before. We have not moved the Bank as far as we would like to, but we are going to keep working on it, because we do think that this proposal can be the yeast that changes the way that others do approach the development issue.

Mr. Kirk. I would just say from what I have seen in economic policy, especially in a place like Eritrea or Togo, I would make the bet, but it would be so much more powerful if that policy was backed up by the executive director at the World Bank and the African Development Bank and any other MDBs that were participating. And since this subcommittee funds those institutions as well, it would, I think, be music to our ears to see that influence.

Mr. Larson. We are pushing in exactly that direction and I

think, sir, we are getting a little bit of track.

Mr. Kirk. Thank you very much, Mr. Chairman.

Mr. Kolbe. Thank you. Maybe we have time for just a couple of more questions before we have to wrap up and dismiss Mr. Larson.

Mr. Larson, in your testimony you have the statement, the implementation phase will begin after countries have been notified of the selection of the MCA. Isn't this actually a two-step process? Isn't there, first, the determination of the countries that are eligible? Just being on the list of countries eligible does not guarantee they are going to be an MCA participant; is that right?

Mr. Larson. Well, that is correct. I mean, you are eligible to compete, you have to have competed and been selected by the board or the President.

Mr. Kolbe. So the board would select, would say, these are the countries eligible to compete?

Mr. Larson. Correct.

Mr. Kolbe. And then they would go out with the statement made on your previous page, where you said--would run a competition among the eligible countries to determine which qualify for the MCA or which would be given MCA grants, I guess would be the right way to say it; is that right?

Mr. Larson. Yes.

Mr. Kolbe. And then you would approve country X. There are countries A through Z that would qualify, that are on the eligible list, but only B, F--we don't want to name any names here--B, F, K, M and P are actually countries that are going to get grants.

Mr. Larson. Yes. And let me, let me try to put it this way: First year, 74 countries eligible to compete. Let's assume, for the sake of argument, that 12 countries are judged by the board--after reviewing these indicators and all of other information available, that these are countries that we are prepared to work with. That is sort of the second stage.

Now, it is still going to be necessary for those countries to come forward with projects that the Corporation and the board believe merit the support of the American taxpayer. That initiates a process by which we are in dialogue with these countries, and they are able to come forward with proposals. We think, because they are good performers, there is certainly a strong likelihood that they will be able to come forward with proposals we can support. But it is not an entitlement; it is something that has to be based on the adequacy and strength of a proposal.

Mr. Kolbe. Do you object to having a cap on administrative costs? You don't have anything in your legislation which would cap it at all.

Mr. Larson. Well, you know, certainly we didn't put anything in in terms of administrative expenditures, because we have the intention of keeping it lean and we have not wanted to, you know, legislate things that are perhaps better left to experience.

But if the thrust of your question is that the Congress does not want to see a lot of this money being used for administrative expenses, we are in exactly the same place, and that is why we proposed something that is lean and would not be

used to fund overhead.

Mr. Kolbe. Well, in many cases, in many countries, the MCC, the Millennium Challenge Corporation, might well be administering programs that exceed that of USAID in a country. USAID has a mission in these countries, sometimes with a number of people there to oversee the programs.

Do you anticipate creating a large new number of people that would be overseeing these programs? Or how would that work in country P--we don't want to name countries here--country P, that is one of your recipients here?

Mr. Larson. And AID is present, for example, in country P.

Well, I think what would likely happen--here is an example of what could happen. The ambassador and the AID director go in and see the president of country P and say, you know, you have asked to be considered for the Millennium Challenge Account. The board has reviewed all of the information. They think that you would make a good partner, and we would be interested in initiating a dialogue with you about how we can work together to accomplish this.

Would you be prepared to receive a mission, next week, of a couple of people coming out to work on this with you?

Mr. Kolbe. And how would the oversight and the evaluation be done?

Mr. Larson. Of an actual project once it was under way?

Mr. Kolbe. Yes.

Mr. Larson. We would like to have the flexibility to, first of all, build more evaluation into the project itself. In other words, we would not consider any project proposal complete until there was a plan built in it that would benchmark performance and would give the Corporation reason to believe that the project was on track or not.

As time goes on, we want to have the flexibility to contract with private groups to audit results, and as I stressed in response to one of the earlier questions, I think ``audit'' means, you know, did the money go where it was supposed to go--a financial audit function. But it also means, did the activities produce the development results you are trying to achieve, which is more of an outcomes audit.

Mr. Kolbe. This is a little bit like the Global ATM Fund, which has a local agent that does the auditing and the evaluation and reports back to the Global Fund then? Are you talking about self-evaluation? Is the country going to hire their own evaluators?

Mr. Larson. As I said in response to one of the earlier questions, we want to encourage these countries to build in their own audit capabilities so that they are doing this.

Mr. Kolbe. Do you see us relying on that?

Mr. Larson. No. But that is what I also said, trust but verify.

In other words, I think that we are going to need to have built into these projects the capability of a host government to be able to monitor and audit how funds are being used, what results are being achieved, and whether this project remains on track. But I do not believe that the Secretary of State will want to come before you and Mrs. Lowey and say, we believe these results because we have this information that has come to us from some third-party auditor in country P that says it is

all on track.

We are going to have to have an ability to verify that, and some of that verification may come through hiring of independent, private sector auditors who could go on the ground and test whether the results we are getting are accurate.

Mr. Kolbe. Last here, before I call on Mrs. Lowey, we have been struggling with USAID to get a workable procurement system in place. Are we going to invent another new procurement system here for the MCC, a new personnel system, a new IT system?

Mr. Larson. One of the things that we want to do in the very short run is identify for a new CEO what some of the best options or alternatives would be on issues like personnel and procurement and IT.

We believe that the CEO is the person who would be paid to make decisions on issues like that, subject to the approval of the board. But we think that there are many areas where the choices could involve piggybacking on other systems that are available, where we think that they are efficient and they will work; in other cases, it may be that it does make sense to have something different.

On the personnel side, the authorization language sets forth some ideas for having flexibility. This is the way that people are handled that would be different from the standard civil service or foreign service regulations.

Mr. Kolbe. Thank you. We will wrap up with Ms. Lowey's questions.

Mrs. Lowey. Mr. Secretary, it is my understanding that the Administration has indicated to the authorizers that it would be willing to allow a role for AID on the MCC Board, but only as a nonvoting member. I cannot understand what's so objectionable about having our Development Agency involved in helping to make decisions about where to send billions in development dollars. Why do you give a vote to the head of OMB but not a vote to those people who have been in the field for years and years.

Mr. Larson. Well, I am going to answer your question in a slightly more general way, but the view of the Secretary of State is that he will visit and want to get all of the advice that the Director of OMB can provide, and I think, for my part, there is no question but that AID will have a voice.

Mrs. Lowey. But OMB has a vote. They know more about development than AID?

Mr. Larson. Well, in our view, the Administration's proposal is that the board should be composed of cabinet level officials and the Director of OMB. Along with the Secretary of State and the Secretary of the Treasury would be the right cabinet level officials, who would be accountable to the President for the management of this entity but that AID, the Director of AID, would have invaluable insights and expertise. And the Secretary of State relies on that.

Mrs. Lowey. I will move on.

Okay. Could you discuss with us how the MCA will coordinate with other international donors to ensure maximum effectiveness of overall aid dollars.

Mr. Larson. Certainly. On the ground, coordination really has to begin with ground coordination. So I think the most important point is that in a country that is a recipient of

MCA, the MCA would want to work, first of all, with the host country, which has the principal responsibility for donor coordination, but also other donors to make sure that our programs and our points of emphasis are consistent and complementary with what's going on, or if they are not, to achieve that complementary.

I do think there is also a capitals-level aspect to donor coordination as well. And here part of it, in my view, is that the Millennium Challenge Corporation can help influence, in a positive way, some of the policies of other development institutions. I think the emphasis on measuring results is an important aspect of development policy, and we welcome the fact that others are moving in that direction.

Mrs. Lowey. Let me just conclude because I know you have been very generous with your time, as has been the Chairman.

The only list that I have seen of MCA-eligible countries is that which was put together by the Center for Global Development, the think tank, and according to this list, only 13 percent of the population of sub-Saharan Africa, the poorest region in the world, would be eligible for MCA funding.

I would be interested to know how the MCA will target the poorest population if it excludes the vast majority of the poorest region of the world, and then I have other questions about your funding at Millennium, the second tier. I know we are not going to get to that, but I think it is very important for us to acknowledge that because of the criteria, only 13 percent of sub-Saharan Africa will qualify.

Mr. Larson. The Global Development Institute, using their own methodology, has come up with some results, and I think those are the ones that you are citing. So I am not in a position to confirm how that squares with ours, but I think what I can say is that in Africa, it has certainly been the case that some of the most populous countries, notably Nigeria, have had some difficult policy environments in the last two decades.

I mean Nigeria is a country that has been governed by military dictators. They have had very difficult internal violence and corruption and things of that sort, and so any results that you get, that are based on population in sub-Saharan Africa, are going to be skewed by the difficulty of Nigeria.

I think the positive message, about the way this process looks like it would work, is that quite a number of sub-Saharan African countries would be competitive. I think it would give us an opportunity to work with some of the sub-Saharan countries that have really made a commitment to development and have been showing good results, and by working with them and showing even better results, I think it would have an influence in changing policies.

We already are hearing, and I know Mr. Natsios is hearing this and so am I, that countries that acknowledge that they have policy problems are coming to us and saying: Look, we want to qualify for the MCA. We know we have a difficulty now in this area or that. Can you work with us to help us correct this problem we have in governance or this problem that we have in having laws that don't really promote economic opportunity?

So I believe the development impact of this initiative

comes not only from the immediate countries that we are working with because they qualify, but also by the stimulus it has for other countries to address issues.

Mrs. Lowey. I am so glad you ended on that note because it takes me back to the very beginning, and one of my basic questions.

Are you going to be working with them? Are you going to set up a second tier of assistance through that \$1.3 billion, or are you going for assistance to AID traditional accounts that have been either level funded or cut back? That is exactly the point many of us have been making through this whole process. There are many countries that really need that assistance, the poorest of the poor because of corruption or all kinds of reasons to get up to that level. If you could respond, you said you would be working with them? With the MCA funding?

Mr. Larson. Our very, very strong view is that we need to be working with countries that are considered near miss or second tier or close, but not quite there.

The Administration's current thinking is that we do have the flexibility, within USAID, to do that. It is a mission that Administrator Natsios believes is a very important mission, and we agree with that. The fundamental point is that we do want to be present, active, and supportive of those countries. This will not work if it is only for the A+ honor roll. It has to be working with, as well, the B and the B- countries to help them improve their policy performance, and, therefore, improve their development performance.

Mrs. Lowey. Thank you, and we look forward to more details and more discussions as to how you are going to do that and help people reach that level, so they will be eligible for the MCA funding.

Thank you.

Mr. Kolbe. I misspoke. I thought of a couple of things I just need to get quickly on the record here.

One of the questions I had asked recommended to the authorizers that they include a provision specifically forbidding taxation of the MCA funds or projects. I would hope the Administration would support such a provision, as we now do, for all of our AID projects in the legislation.

Mr. Larson. Yeah.

Mr. Kolbe. Thank you.

I also would say that my hope is when this finally emerges, this framework of this organization, this corporation emerges, that it does include some outside board members and private board members. I just think it is going to be very hard for the OMB or the Secretary to walk into a meeting and suddenly take off one hat and suddenly put on another hat and be totally a different kind of a person. I think you need some outside, that is my own personal view, some outside point of view that would help in that, not a majority but that point of view.

And my last question, that is just a comment for you. My last question is this, and it relates to what the questions that were being asked here earlier, once the countries are picked, let's say the 15 countries that are picked that are going to be the recipients of the assistance, is there another competition among them for the amount they get, or is the amount they are going to get determined by the quality of the

proposal they make or simply the indicators, their poverty levels, that kind of thing. Or are you simply going to take it and try and divide it evenly among all the countries there?

I guess, what would be the criteria for how you would decide, since it is limited, finite resources, as to how much goes to 15 countries?

Mr. Larson. Sure. Just, if I could, just a quick note on the outside advice for the board.

Even though we are committed to the notion of a cabinet level, inside government board, we do share very much the notion that the board will need outside advice. And we have talked about ways of providing that advice by making sure that eminent development experts available to help them think through issues of strategy.

On your specific question, Mr. Chairman, we do not envision that this would be just--well, you have qualified, so here's your share of the amount of money that is available this year.

We think that the decisions about allocation should be made on the review of the quality of the proposals and the amount that is needed to get a specific piece of work done. There may be that one of the countries that you are working with has a proposal that cannot really effectively be tackled with a relatively small amount of money, but that they, nevertheless, have come forward with a very credible approach of how to achieve their development outcomes, and that they can make the case both on a combination of, sort of, need in the sense of there is a threshold that has to be reached to make this project work, and the quality of the proposal. And so that is something that the corporation, I think, headed by the CEO would have to evaluate and take to the board. It is not--we don't want it to be seen as an entitlement.

Mr. Kolbe. Mr. Larson, thank you very much. You have been very patient with all the questions coming from this committee, especially since you had to field all of them with Mr. Natsios' departure, and we do appreciate your work, the work you have made in helping us get this far with the proposal, and we hope that we will be having you and others up here frequently as we talk about the Millennium Challenge Account and the corporation.

Thank you very much. The subcommittee stands adjourned.

[Questions and answers for the record follow:]

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